RESEARCH REPORT

HOMEOWNERSHIP EDUCATION AND COUNSELLING: AN EXAMINATION OF U.S. EXPERIENCE AND ITS RELEVANCE FOR CANADA

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Homeownership Education and Counselling:
An Examination of U.S. Experience and its Relevance For Canada

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Executive Summary

Introduction

From the mid-1980s to mid-1990s the U.S. homeownership rate stagnated at approximately 64 per cent. In 1995, President Clinton announced a housing sector-wide "National Homeownership Strategy" initiative aimed at raising the rate to 67.5 per cent by 2001. While U.S. research has continually shown that lack of information about how to buy a home was a strong access barrier, middle and high-income households already had extremely high (above 85 per cent) homeownership rates. Increasing the national rate required measures enhancing access to traditionally underserved markets (i.e. minorities, lower-to moderate income households, younger households, dwellers in central cities, immigrants, and rural populations including Aboriginal people). Such lending however, raised concerns of potentially unacceptable levels of mortgage loan default risk. Freddie Mac research, however, showed that a notable way of improving borrower-repayment reliability was through the use of homeowner education and counselling (HEC) which emphasize homebuyer preparedness.

Over the last five years, there has been renewed interest and activity in the U.S. in expanding the homeownership market using HEC as a means to reach traditionally underserved households while managing mortgage loan default risk. In recognition of HEC's perceived value, the U.S. Housing and Urban Development Department (HUD), non-profit and community development organizations, lenders, mortgage insurers as well as other quasi-government agencies such as Fannie Mae and Freddie Mac have encouraged, funded, and participated in the delivery and standardization of HEC and in the creation of the American Homeowner Education and Counselling Institute (AHECI). HUD provided further support in the form of reduced (i.e. 30 to 40 per cent) up-front mortgage loan insurance premiums to first-time homebuyers successfully completing accredited HEC programs.

Since the mid-1990s, HEC has helped to raise the U.S. homeownership rate to 67 per cent facilitated by a range of positive environmental factors including:

- sustained U.S. economic growth;
- housing stakeholders' initiatives in response to the *National Homeownership Strategy*;
- widespread development and use of affordable housing mortgage loan instruments linked to HEC; and
- down payment assistance programs run by state and local governments and housing agencies (also linked to HEC).

In such a facilitative environment, HEC sponsors developed successful outreach methods to market homeownership to underserved communities.

Research Program

The purpose of this research project was to examine the American experience with a view to identifying ways of enhancing affordable, sustainable access to homeownership in Canada. In carrying out this research, in addition to conducting a literature review, a survey of HEC providers and participants was conducted together with follow-up interviews. For the Canadian portion of the research, a broad range of housing and community organizations (180 in total) were surveyed and follow-up interviews conducted in order to develop a portrait of existing homeownership access support services in Canada.

The first part of the report provides a comprehensive summary and evaluation of the HEC experience in the U.S. Following a synopsis of the historical evolution of HEC, the report outlines the characteristics of HEC programs, services and delivery agencies; responses from HEC industry participants surveyed; how HEC is funded; and recent developments affecting the HEC industry, the establishment of AHECI, the increased focus on standardizing program content and delivery as well as the certification of HEC providers. Next, the report describes the role that HEC has played in addressing credit, affordability, psychological, cultural and linguistic access barriers to homeownership and is followed with a summary of the statistical studies, research and anecdotal evidence assessing the efficacy of HEC, both in facilitating access to homeownership as well as in mitigating mortgage loan default risk. This section of the report concludes by summarizing the results of the U.S. HEC industry expert survey in such areas as: the future of HEC and its key factors of success; and why industry leaders are so interested in HEC. This section also outlines respondents' comments on introducing HEC-type initiatives elsewhere.

The second part of the report examines the access support services and delivery structures existing in Canada to help households access homeownership. It examines information and/or access gaps which indicate the need for enhancing homeowner education and counselling efforts in Canada. The results of a national survey examining the nature, scope and operation of existing homebuyer education and counselling efforts in Canada are then presented followed by an assessment of the differences between what is offered in the U.S. vis-à-vis Canada in addressing access barriers to homeownership. The section of the report concludes by examining whether the gaps in services available in Canada might be filled by introducing HEC-style initiatives that draw on best practices used in the U.S. under the auspices of a housing sector-driven public-private partnership arrangement.

Findings

A Review of the U.S. Experience

Homeownership Education and Counselling (HEC) got its start in the U.S. as part of the legislation created by the HUD in 1968. With significant and ongoing financial support from HUD, and episodic support form lenders and private concerns, the industry expanded from a handful of pilot projects to thousands of providers of a wide range of education and counselling services. Important events in the industry's evolution include the enforcement of the Community Reinvestment Act (CRA) in 1989, which put pressure on lenders to penetrate underserved housing markets; stagnating U.S homeownership rates of the mid 1980s and mid 1990s that spurred interest among the three levels of government in HEC as a vehicle to raise homeownership; and the 1992 Federal Housing Enterprise Financial Safety and Soundness Act that allowed HUD to set affordable housing goals for the Government Sponsored Enterprises (GSEs)—Fannie Mae and Freddie Mac.

Post-purchase foreclosure prevention dominated the industry's early activities. The focus shifted to pre-purchase education and counselling in the early 1990s. Recently, a number of providers have moved to comprehensive "full-cycle" counselling designed to help families both before and after they purchase a home and extending, in some cases, to training for elderly households seeking senior annuity mortgages. Through its first 25 years, the U.S. industry has been characterized as "fragmented" due to a lack of program content and delivery standards. However, over the last 5 years, various developments, including the creation of the AHECI, have contributed to increased standardization.

Industry Services

The industry's four main services are:

- pre-purchase education to help households through the homebuying process;
- pre-purchase counselling to help households overcome financial, credit, linguistic, cultural and psychological barriers to becoming homeowners;
- post-purchase education to instruct homeowners regarding home maintenance, to protect homeowners from predatory lenders and to demystify new mortgage instruments like senior annuity mortgages; and
- post-purchase counselling to help prevent foreclosure.

Pre-purchase education is general in nature and provides help to households to determine whether homeownership is right for them. Some of the largest suppliers of pre-purchase education provide education over the telephone. Counselling, however, is a more time intensive and expensive exercise that usually includes:

- assessing a family's ability to buy a home based on income and credit history;
- helping to repair, or establish, credit histories for those with bad or no credit;
- monitoring household income and expenditure;
- advising and assisting clients in finding employment opportunities to increase inadequate incomes; and

- reviewing all aspects of home purchase and financing; and linking lenders with real estate agents and social service agencies.

Some HEC providers offer other services aimed at facilitating or helping sustain access to homeownership that include:

- assisting homebuyer's access to favourable mortgage terms through affiliated lenders and underwriting services;
- facilitating access to down payment and homeownership assistance initiatives offered by state and municipal governments or local housing and community development groups;
- obtaining forbearance from lenders if the client has difficulty making mortgage payments; and
- providing post-purchase counselling to assist in money-management, home maintenance, or workout schemes to prevent foreclosure.

HEC agencies are often multifunctional organizations that include HEC as one part of a comprehensive low-income homeownership or community development strategy. Other programs in which HEC agencies often engage include:

- affordable housing production;
- rehabilitation and sale of the existing housing stock;
- mortgage underwriting;
- development and/or management of low-income rental property;
- small business development; and
- organization of community programs such as childcare, neighbourhood gardens, neighbourhood watch, sports leagues, etc.

In tribal areas, HEC agencies have helped address some particularly daunting barriers arising from the lack of a tradition of homeownership and the absence of institutional arrangements to facilitate home purchases. The Navajo Partnership for Housing in Window Rock, Arizona, for example, worked with other groups to develop an instrument which could serve as collateral for a housing loan and overcome barriers associated with the inalienability of tribal lands.

Agency Characteristics and HEC Trends

The average agency surveyed for this study was a non-profit organization that had been in operation for more than 18 years and had provided counselling for more than five years. The average agency offered nine hours of classroom instruction and 2.5 hours of one-on-one instruction (not counting tele-HEC). Between 25 and 40 per cent of course graduates became homeowners (71 per cent becoming homeowners within one year and a further 20 per cent within two years). For a majority of agencies surveyed that tracked graduates, delinquency rates for counselling graduates who purchased homes averaged 6-10 per cent while default rates averaged less than 1 per cent (about the average for all mortgages in the U.S.).

HEC delivery agencies reported the following homeownership access barriers facing their clients:

- credit problems (100 per cent);
- lack of savings for down payment and closing costs (93 per cent);
- lack of knowledge and understanding regarding the home purchase process (79 per cent);
- housing affordability relative to client's income level (77 per cent);
- cultural/linguistic barriers (63 per cent);
- lack of knowledge regarding available housing support (57 per cent);
- lack of availability of decent housing (23 per cent); and
- high construction costs.

Agencies listed the following as among the major strategies they employ to help clients purchase homes:

- budget planning and fiscal discipline (100 per cent);
- demystifying the home purchase process (96 per cent);
- credit repair (79 per cent);
- down payment and closing cost assistance (57 per cent);
- access to financial assistance, most often in the form of "soft" or "silent" second mortgages with special terms (47 per cent).

More than 25 per cent of recipients received training over the telephone (tele-HEC), however most industry experts hold a dim view of tele-HEC. All but one of the survey respondents felt that HEC could not be delivered effectively over the telephone. Even three of the four representatives of large tele-HEC programs felt that tele-HEC training would not diminish default risk. Further, graduates of tele-HEC training are not eligible for the reduced Federal Housing Administration (FHA) mortgage insurance premiums offered by HUD.

Other recent trends include: a growth in the number of HEC providers charging clients nominal fees for services; the increasing consolidation of HEC efforts within urban areas; and a movement away from one-on-one counselling to HEC offered in a classroom setting.

In various studies, the costs of delivering HEC range from $100 to $3,200 per client for those that don't require extensive long-term counselling support. The lower estimate applies to education courses provided to a large volume of clients (i.e. more than 30 households a month). For households that need long-term counselling to overcome financial or psychological barriers, costs could amount up to $1,000 per client. Governments and lenders contribute almost equally for about two-thirds of HEC delivery costs with user fees and contributions from private sources accounting for the remainder. In some locales, lenders pay a "bounty" to HEC providers for each mortgage closed with one of their counselling agencies which underscores the importance placed in HEC as a marketing and screening device for lenders.

American Homeowner Education and Counselling Institute (AHECI)

AHECI, initiated by Fannie Mae in 1996, received housing sector-wide funding support from lenders, mortgage insurers, construction and realtor associations, mortgage securitizers and HUD to achieve four objectives:

- to establish certification standards and evaluation criteria for homeownership educators and counsellors;
- to establish a standard core curriculum for homeownership education;
- to perform original research into the contribution of HEC in promoting homeownership and minimizing foreclosure risk: and
- to act as a clearing house for information and resources regarding HEC.

A final lower-priority goal was to make HEC self-financing. AHECI has delivered on its first two goals, but, to date, has not progressed substantially on the third and fourth goals.

Contribution of HEC Programs

There is some evidence that HEC agencies have achieved the goal of outreach/sorting (based on risk) and expansion of homeownership to underserved populations. Stakeholders who were interviewed agreed that HEC agencies effectively distinguish between the underserved who are: i) already creditworthy but unable to qualify for a conventional mortgage (i.e. an immigrant family with no credit history); ii) able to become creditworthy through education and counselling; and iii) are not good credit risks and should not become owners. HEC agencies benefit lenders by reaching out to these populations, sorting them and getting them "mortgage-ready".

Credible empirical studies have not yet been undertaken to assess the effectiveness of U.S. programs in reducing the default risk associated with efforts to expand homeownership although several studies (noted in the report) are currently underway. Because of the historically fragmented nature of the industry and the diversity of clientele and of programs, it has been very difficult up to now to document the impact of HEC. Although the Federal Housing Administration (FHA) offers 30 to 40 per cent up-front mortgage insurance premium discounts to first-time homebuyers who graduate from HUD-approved HEC training programs, there is not yet statistical evidence showing that these clients pose less risk to the agency. U.S. studies, however, estimate that the total losses that accrue to lenders, mortgage insurers and municipalities average $73,000 for foreclosures on FHA-insured mortgages and $26,000 on conventional mortgages.

The Canadian Scene

For a variety of reasons, including a different political environment, Canada did not follow the same evolution as the U.S. in promoting and supporting homeownership education in the late 1960s and early 1970s. In the absence of public sector and institutional support, what has emerged is a patchwork of programs and initiatives that are mostly oriented towards information dissemination rather than education and counselling. The main support services for existing and prospective homeowners consist of:

- pre-purchase seminars run by for-profit firms aimed at demystifying the homebuying process;
- workshops offered by non-profit organizations (including schools) that are occasionally directed at new homebuyers, but which are mainly focused on general budgeting and money management issues;
- hardcopy and electronic information on homeownership processes and programs, along with workbooks and decision-making guides for new homeowners, issued by a variety of private and public sector organizations;
- debtor assistance programs operated by governments, for-profit and non-profit organizations that are not directed specifically at homeowners but may nonetheless serve as vehicle of post-purchase assistance for indebted households;
- a small number of government (pre-purchase, combined in some cases with post-purchase) counselling programs linked to financial assistance programs to facilitate homeownership by low-income households; and
- pre-purchase and post-purchase education and counselling programs offered in conjunction with a small number of non-profit housing initiatives targeted at low-income households.

Existing information dissemination measures are unlikely to be reaching some consumers or potential consumers, including minorities who require HEC information and services in languages other than English and French. Moreover, they are unlikely to address the needs of households that require assistance that extends beyond information provision. The latter group includes:

- off-reserve aboriginal households who face special obstacles due to a lack a tradition of homeownership;
- immigrants who require counselling to adapt to cultural differences that affect homebuying and homeownership;
- households with psychological impediments to homeownership;
- households that need to improve their budgeting and financial management skills to prepare for homeownership;
- those with special financial needs and/or risk characteristics who need to build stronger links with mortgage lenders; and
- homeowners that would benefit from advice and support intended to guide them towards more sustainable homeownership practices.

Given the U.S. experience, Canadian programs appear unlikely to be meeting the needs of households that could benefit from post-purchase counselling. Existing Canadian programs serve only some participants in government or non-profit-sponsored assisted housing programs and homeowners who have already encountered financial difficulties and have been led to seek debt management assistance. For most homeowners, there is no ready access to the advice and support that may be required to help them sustain homeownership.

Conclusions

Canada does not have an identifiable HEC industry, but it does have a wide range of organizations that provide information and support services to prospective and existing homeowners. Information gaps that exist cannot be attributed to the lack of published and electronic resources available for new homeowners. Nor do they reflect the inadequacy of information provided through the new homeowner seminars sponsored by for-profit firms. While there appears to be considerable scope to expand their coverage and improve their effectiveness, homeowner seminars largely address the needs of households that simply require very basic information on the homebuying process and on the calculations that will help them determine what they can afford. The problems are rather that:

(1) existing mechanisms of information dissemination are not reaching some consumers, or potential consumers; and
(2) some households require assistance that extends beyond information provision.

The counselling services currently available in connection with the assisted housing programs operated by governments and non-profit organizations are reaching only a small segment of those households in need of more extensive assistance.

Many homeownership support requirements that are not being met in Canada are being addressed in the U.S. For housing stakeholders in Canada interested in enhancing access to homeownership by developing a U.S. HEC-style initiative thought should be given to adopting an appropriate strategy - one that is in keeping with the potential significance of HEC and also the lack of solid evidence documenting the ability of HEC to reduce default risks.

Characteristics of a Well-Designed HEC Program

U.S. experience suggests that successful HEC programs are likely to include:

1. **An approach that reflects a full understanding of local housing conditions and local populations.**

Because the condition of housing, population demographics and labor markets vary dramatically from place to place, it is important that the approach adopted by an HEC agency is consistent with local needs. Without decent affordable housing available locally, educating potential homebuyers is a waste of time. If the local population has a high proportion of immigrants, instruction given in English might not be appropriate. Legal documents, special lending products, and public support also vary locally. An effective HEC program must be well integrated in its locality.

2. An Effective Outreach Mechanism

All successful HEC programs have found effective means of reaching its clientele. This involves the use of both formal (radio, television, or newspapers) and informal channels (linking with employers, churches, or community groups and posting flyers).

3. A Carefully Planned Classroom Education Component

Most observers agree that HEC cannot be effectively delivered over the telephone. Classroom instruction is required based on an approved core curriculum and incorporating modules that address local issues and concerns. The course should be targeted at households that have not yet begun the home search process. It should be offered by certified instructors and participants should be tested before graduation.

4. A Complementary Component of One-on-One Counselling

This is often necessary where clients need help improving their budgeting and money management skills and repairing their credit history. HEC counsellors should be certified and required to adhere to an industry code of ethics.

5. The Support of Umbrella Agencies

In the U.S. umbrella agencies fulfill an important support function. They develop the curriculum, produce and distribute educational materials, train instructors and undertake research and program assessments. Umbrella organizations help to ensure HEC providers satisfy minimum standards in terms of course content and delivery, and help providers realize the economies from a joint approach to certain common functions.

6. Links to Organizations Offering Related Services

Well-developed links to other organizations serve three functions. First, they help HEC providers reach households who could benefit from homeownership education and counselling. Second, through such links, HEC providers will be well positioned to help households that require assistance beyond homeownership education and counselling - such as language or job training. Third, HEC providers can help households to seek other homeownership support offered through public agencies, employers, or lenders.

A Proposed Approach

The study concludes that there appears to be sufficient positive evidence from case studies, the views of industry participants and the continued willingness of U.S. stakeholders to contribute to U.S. programs to warrant an exploratory entry into the provision of HEC in Canada, most likely through a partnership amongst stakeholders with the most to gain. Preparatory work to lay the groundwork for the possible development of a HEC industry could include the development of HEC demonstration projects. A steering committee representing the main stakeholders could assess the experimental HEC projects in Canada and monitor the results of a number of large-scale research projects that are underway to evaluate the effectiveness of U.S. HEC initiatives. Stakeholders could work together to create programs that draw on the best features of the U.S. experience to address gaps in the services available to assist potential and existing Canadian homeowners.

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Introduction

This research report explores the use of education and counselling programs to facilitate access to homeownership and make homeownership sustainable. The focus is both on pre-purchase programs, which target prospective homeowners, and post-purchase programs, which are directed towards existing homeowners that need assistance in avoiding or addressing problems that put homeownership at risk. The study examines what is involved in the establishment of comprehensive homeownership education and counselling programs and considers whether there is a role for such programs in Canada.

The U.S. is a valuable source of information on homeownership education and counselling (HEC). A large HEC industry has emerged, offering a variety of pre- and post-purchase education and counselling programs. The recent emphasis in the U.S. on increasing homeownership opportunities for lower-to-moderate income and other underserved households has generated increased interest in homeownership education and counselling. The expansion of the HEC industry is being accompanied by the introduction of new forms of program delivery and by the creation of central structures that are aimed at bringing some measure of uniformity to U.S. education and counselling activities. There is also an increased interest in the U.S. in assessing the impact of HEC activities and understanding the factors that contribute to successful program outcomes.

Part 1 of this report reviews U.S. experience with homeownership education and counselling in an attempt to determine what lessons this holds for Canada. There is a comprehensive discussion of the nature and scope of HEC activities in the U.S. The evolution of the industry is described and recent developments, including the establishment of the American Homeownership Education and Counselling Institute, are examined. Special attention is given to programs targeting Native American and Native Alaskan households. A major focus is on understanding the effects of education and counselling initiatives. To help shed light on this complex issue, the results emerging from a review of past studies are supplemented by evidence gathered from interviews with providers of HEC and with program participants. These interviews, specially conducted for this report, provide some useful insights into the features of successful education and counselling programs.

In Part II, the services available in Canada to assist prospective and existing homeowners are examined with a view to identifying gaps and determining whether there may be a role for U.S-style homeownership education and counselling activities. Canada has followed a quite different route than the U.S. in this area and there is an attempt to understand the reasons for this. The main focus, however, is on determining whether the homeownership support services currently available in Canada are adequate.
A portrait of the homeownership support services available in Canada was constructed from a broad search of available sources, a large-scale mail-out to a range of housing and community organizations and follow-up interviews. Using this information on services provided to those in the general

housing market and to low-and-modest income households participating in assisted housing programs, a number of needs that are not currently being addressed in Canada were identified.

The concluding section reviews the report's findings with respect to the characteristics of a well-designed homeownership and counselling program. The implications of the findings in Part 1 and Part II are considered and a proposal is put forward, aimed at positioning Canada to pursue potential opportunities from drawing upon the best features of U.S. experience with homeownership education and counselling.

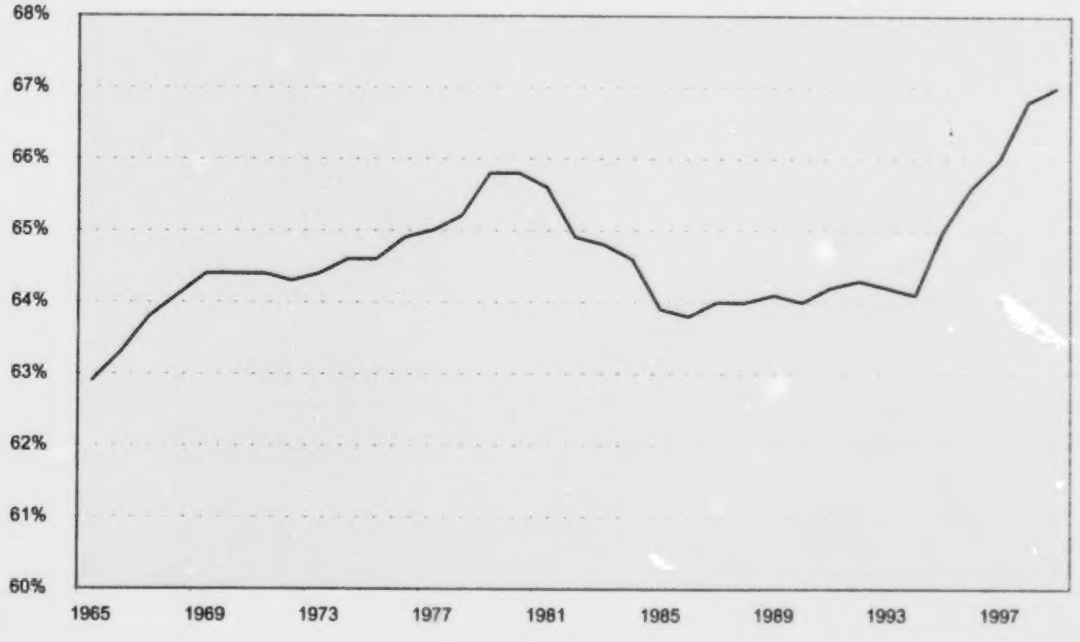
Part 1: A Review of the U.S. Experience

Chapter 1: Background

Living in a single-family, owner-occupied dwelling unit is central to the conception that most Americans have of a secure and successful life. In a 1994 national survey conducted by Fannie Mae, 86 per cent of all respondents felt that people are better off owning than renting a home, and 74 per cent believe that people should purchase a home as soon as they can afford it. Of the renters surveyed, 67 per cent said they rent because they are unable to afford to own, while 26 per cent said it was a matter of choice. Moreover, a full 57 per cent of renters said that buying a home is a very important priority in their lives.

The U.S. has a history of high and generally rising homeownership rates. Homeownership rates rose unabated for nearly four decades from 44 per cent in the mid-1940s to over 65 per cent by 1980. They stagnated during the1980s, falling below 64 per cent and remaining near there from the third quarter of 1985 until the early 1990s (see Chart 1)[1]. Homeownership rates increased during the unprecedented decade-long economic expansion of the 1990s. National homeownership rates reached an all-time high of 67.0 per cent in the third quarter of 1999.

Chart 1: U.S. Homeownership Rates
1965:Q3 through 1999:Q3
Source: U.S.Bureau of Census, Housing Vacancy Survey, 1999



Interest in homeownership among Americans has been encouraged and supported by a variety of federal programs and policies. Historically, the federal tax code has provided generous tax benefits to homeowners through the mortgage interest deduction. In addition, a variety of Federal Housing Administration (FHA) programs have expanded access to and provided below-market interest rate mortgage loans for millions of Americans. In 1995, the Clinton Administration acknowledged the critical role of homeownership to the welfare of both families and communities in the *National Homeownership Strategy* by establishing the goal of raising the national homeownership rate to 67.5 per cent by the year 2001.

The federal commitment to and subsidy of homeownership has often been justified by claims that it has a variety of benefits both to individuals and to the society as a whole. The introduction to the *National Homeownership Strategy*, for example, reads:

> *Most scholars, public policy makers, industry analysts, and civic and community leaders agree that supporting homeownership is good for America, and will produce four fundamental benefits:*

1. *Homeownership is a commitment to personal financial security. Through homeownership a family acquires a place to live and raise children and invests in an asset that can grow in value and provide the capital needed to start a small business, finance college tuition, and generate financial security for retirement.*
2. *Homeownership is a commitment to strengthening families and good citizenship. Homeownership enables people to have greater control and exercise more responsibility over their living environment.*
3. *Homeownership is a commitment to community. Homeownership helps stabilize neighbourhoods and strengthen communities. It creates important local and individual incentives for maintaining and improving private property and public spaces.*
4. *Homeownership is a commitment to economic growth. Homeownership helps generate jobs and stimulate economic growth. The design, construction, and rehabilitation of homes employ local labor and use a vast array of American-made products and services. Homebuilding has often led the economic recovery from national recessions due to its strong job multiplier effect and because increased housing starts and home sales represent renewed economic confidence.*

> *Homeownership creates economic prosperity for families and communities and acts as a dynamic generator of economic growth. Every new home creates 2.1 jobs directly related to construction, and many more jobs through increased demand for household goods and services.*

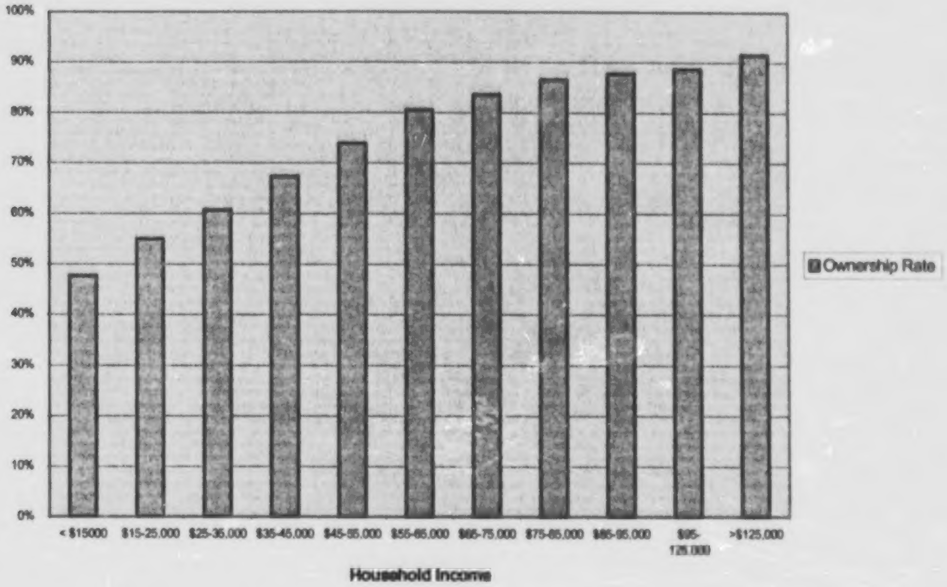
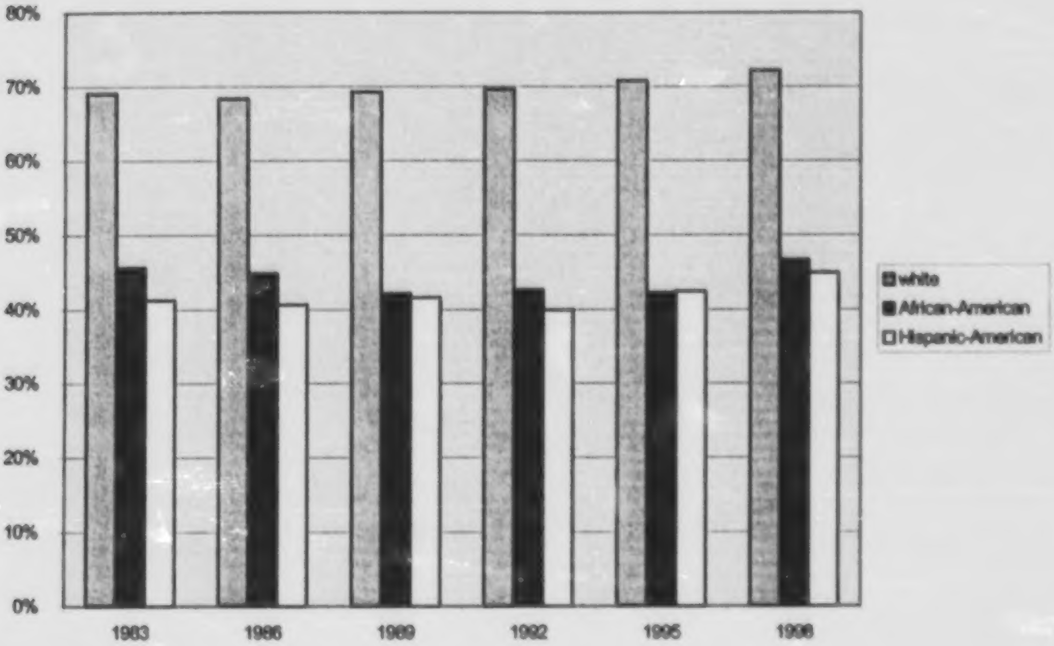


Chart 2: U.S. Homeownership by Family Income
Data Source: American Housing Survey (1997), authors calculations

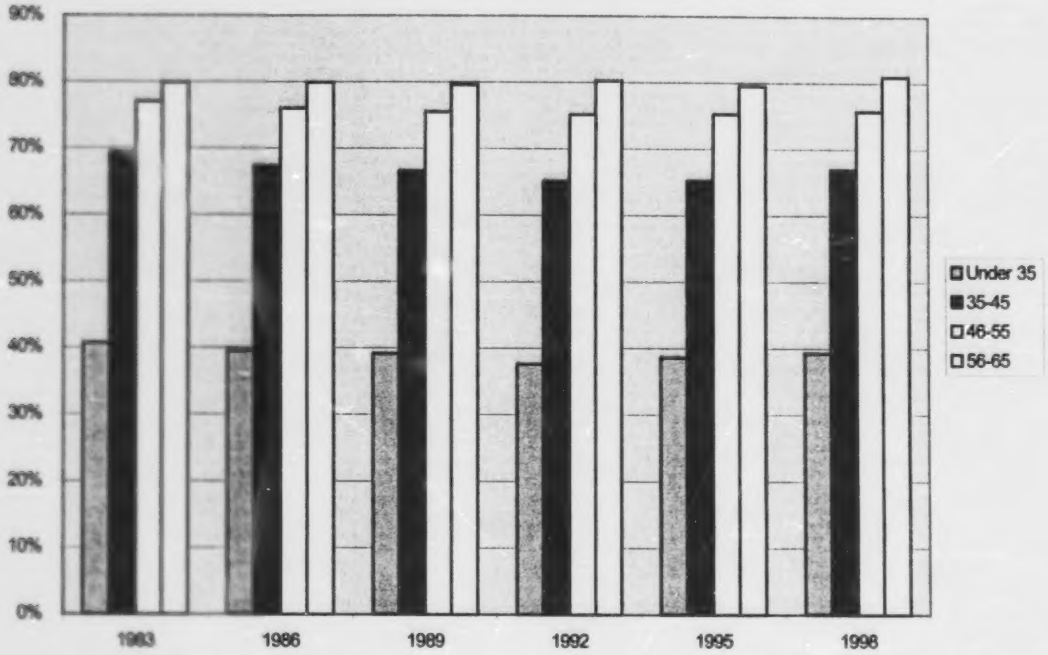
Raising national rates by even a small amount is not a simple task. Most households that can already afford to purchase a home through the conventional market have already done so. Chart 2 illustrates homeownership rates based on household incomes. As is readily apparent, middle- and high-income families have extremely high ownership rates, exceeding 85 per cent. The high- and middle-income markets are considered "saturated" by many market watchers. Increasing overall national rates requires the expansion of lending to lower income households.

Chart 3. U.S. Homeownership by Race/Ethnicity
Source: U.S. Bureau of the Census, Current Population Survey 1998



A similar observation emerges when one looks at homeownership rates by race and ethnicity. Chart 3 shows homeownership rates for whites, African-Americans and Hispanic-Americans. With homeownership rates for whites above 70 per cent, it will be difficult to increase ownership rates in this portion of the market. However, homeownership rates below 50 per cent for African-American and Hispanic-Americans suggest big opportunities to expand lending in these markets.

Chart 4. U.S. Homeownership Rates by Age
Data source: U.S. Bureau of the Census, Current Population Survey 1998

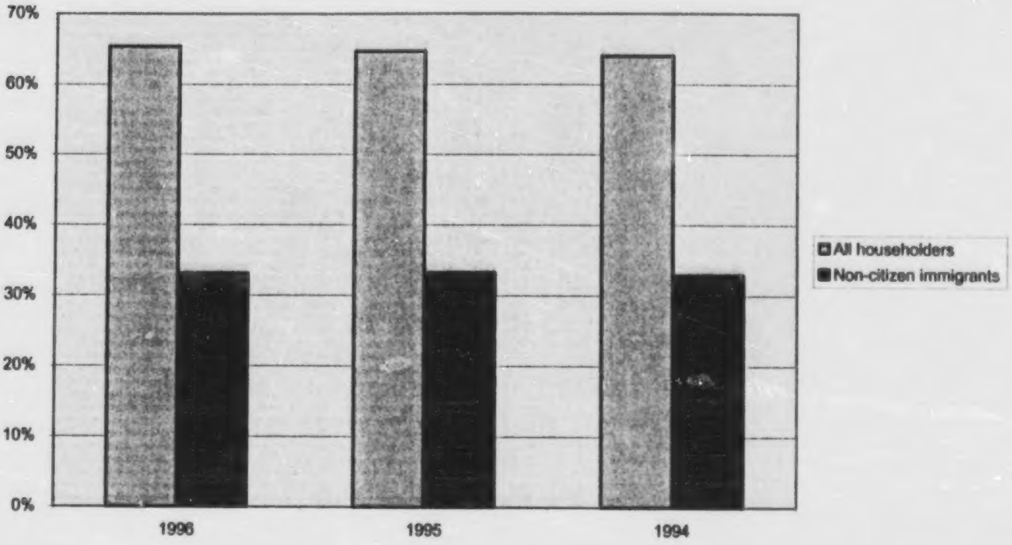


Homeownership rates show significant disparities across age and citizenship. Chart 4 shows homeownership differences based on age. Homeownership rates exceed 75 per cent for households with heads more than 45 years old. Chart 5 compares homeownership rates for all households and non-citizen immigrants. Non-citizen immigrant ownership rates are half of those of the population as a whole.

Those "underserved" by the conventional mortgage market are defined by their low homeownership rates: minorities, lower- and moderate-income households, young households, dwellers in central cities, immigrants, and the large, but generally ignored, rural population including Native Americans living on reservations. Almost all initiatives aimed at increasing homeownership have targeted one or more of these groups. National initiatives like the Neighbourhood Reinvestment Corporation's NeighborWorks® Campaign for Homeownership, Fannie Mae's Trillion Dollar Commitment and the Ford Foundation's $50 million grant to Self-Help Credit in Durham, N.C. to establish a secondary market for affordable mortgages, illustrate the breadth of the U.S. commitment to increasing homeownership rates.

Chart 5: Homeownership for US Immigrants

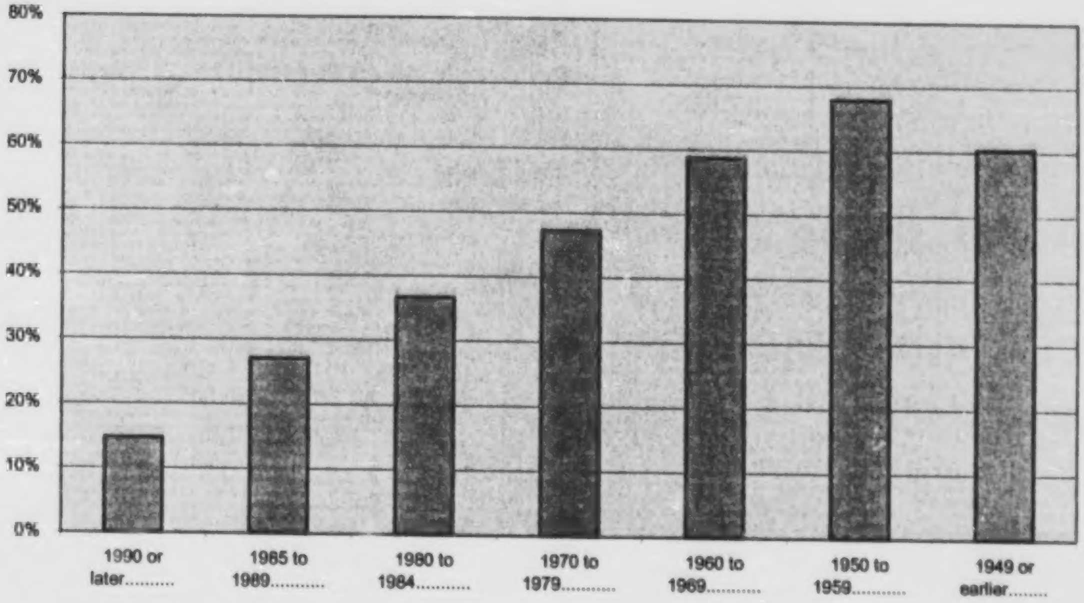
Data Source: U.S. Bureau of Census, *Moving to America-Moving to Opportunity* (1996)



An important caveat must be kept in mind when considering point estimates of homeownership rates. Point estimates fail to capture the important distinction between current ownership and "ever-ownership" rates. Berkovec and Zorn (1998) estimate that ever-ownership rates exceed 85 per cent for the U.S. population. Increasing overall homeownership rates can be accomplished by expanding the market by getting "never-owners" to purchase a home or by accelerating the market through increasing the duration of ownership within an ever-owner's life-cycle. It is an open question whether attempts to increase homeownership rates affect ever-ownership rates.

Chart 6: 1996 Homeownership Rates for Non-Citizen Immigrants by arrival cohort

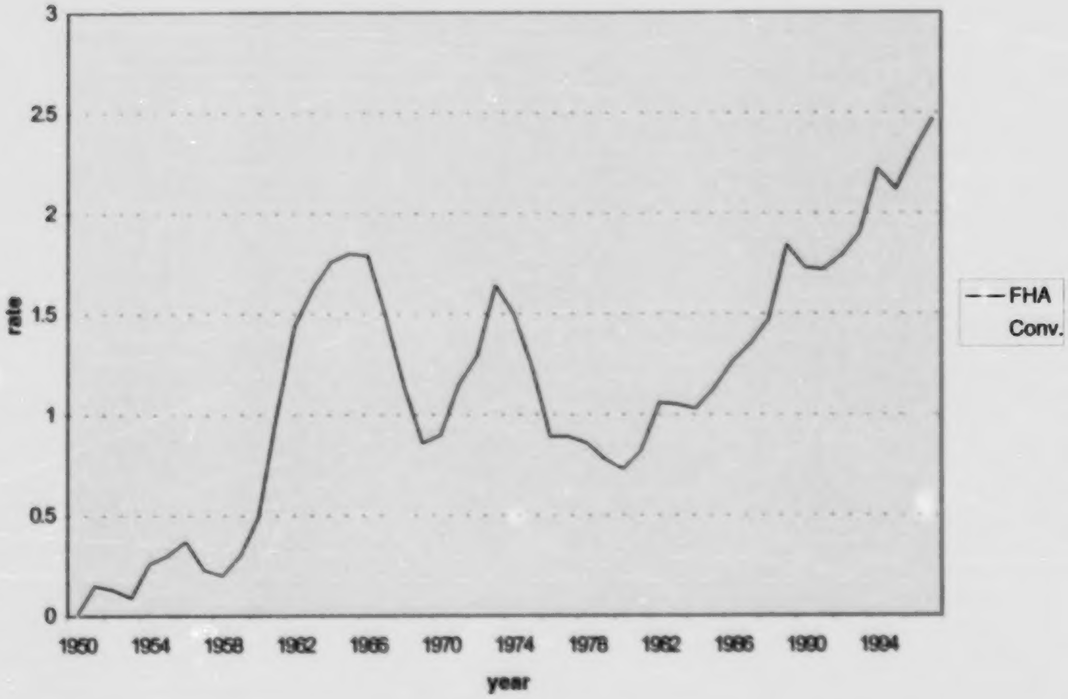
Data Source: U.S. Bureau of the Census, *Moving to America, Moving to Homeownership* (1997)



For example, Chart 6 illustrates homeownership rates for immigrant households. Although point estimates of the homeownership rates of immigrants are low relative to the native population, as the duration of residence increases homeownership rates of immigrants converge toward homeownership rates of the native population. This suggests that ever-ownership rates for immigrants are much higher than the 30-35 per cent current point estimates suggest. Increasing immigrant ownership rates might require that immigrant households become owners sooner after arrival to the U.S. without affecting ever-ownership rates for immigrants. Increasing homeownership in this way *accelerates* the market rather than *expanding* it.

Increasing homeownership in underserved markets is potentially risky. One reason that populations in these markets have low ownership rates is because they cannot satisfy conventional mortgage underwriting criteria. Most lower-income households do not have sufficient liquid assets to make a sizeable down payment to purchase a home. Other households have a bad or non-existent credit history and cannot meet the credit rating requirements to qualify. Still others have insufficient incomes to meet the underwriting criteria for conventional mortgages (conventional mortgages require that no more than 28 per cent of gross income can be used to cover the mortgage payment plus interest, taxes, and insurance). These underwriting conventions were established by lenders to generate optimal lending volumes with tolerable default losses.

Chart 7: U.S. Foreclosure Rates
FHA and Conventional Mortgages
data sources: MBA, from Elmer and Seelig (1998)



Independent of the increase in affordable lending, mortgage foreclosure rates have risen steadily since 1950. This is exhibited in Chart 7 which shows foreclosure rates for conventional and FHA-insured mortgages from 1950 to1997. What is particularly troubling is the increase in foreclosure rates during the recent economic expansion. Foreclosure rates for both conventional and FHA-insured mortgages rose by 50 per cent or more from 1988 to 1998. This occurred during a period of generally stable or rising house prices, unusually low unemployment, and low interest rates. Given that most lenders consider affordable mortgages riskier than conventional mortgages—possibly with a risk profile resembling FHA-insured mortgages—worries about high default risk are well founded.

Regulated lenders and the government-sponsored-enterprises (GSEs—Fannie Mae and Freddie Mac) had no choice regarding the expansion of their activities into affordable markets. Federal law mandates that they serve these markets. In order to comply with the mandates and protect themselves from increased default risk, lenders and the GSEs need to carefully screen households applying for affordable mortgages. At the same time, lenders and GSEs have little experience in these markets and little basis for screening. They have come to rely on third parties to sort through the underserved populations for creditworthy households.

Enhancing the access to homeownership in the U.S.—the role of HEC

Expansion of homeownership opportunities to underserved populations has been accomplished through more aggressive outreach and the development of special mortgage products. Because these initiatives attempt to reach households with little or no experience in home purchase, they all include homeownership education and counselling (HEC) as a fundamental component of their approach. HEC programs have developed successful outreach methods to market homeownership to underserved communities. They have also succeeded in making the home purchase process less daunting for families—filling in informational gaps, allaying fears, and often helping families who fall short of mortgage qualification standards to address and repair their shortcomings. HEC programs have been instrumental at introducing lenders to markets with which they have little experience. This is an important, but often-overlooked aspect of HEC. Because lenders have little experience working with underserved populations, they are unable to evaluate lending risk. They rely on intermediaries to help them overcome asymmetric information in these lending markets.

In theory, the underserved can be divided into three different groups based on creditworthiness. The first group is already creditworthy—those who are ready and able to purchase a home, desire to own, but have not done so. For this group, cultural, social, or linguistic barriers prevent them from realizing the goal of homeownership. Some households may have traditions of transacting in cash and therefore have no credit or banking history. Others might not know how to begin the home purchase process because of language barriers. These informational barriers can be bridged through effective outreach and training. HEC providers assist these households by establishing creditworthiness using alternative means (a good history of rental and utility payments) or can instruct them regarding the home buying process. Households in this group will eventually become homeowners on their own. They have low default risk and are sought by lenders and the GSEs. HEC accelerates homeownership for these households.

The second group is not yet creditworthy, but can become so with minor intervention. These households are able to meet some but not all of the underwriting criteria. Perhaps they have marred credit that can be repaired with minor intervention. They might have sufficient income to afford a home, but no savings or assets available to provide a down payment. HEC providers can inform these households about available programs that provide down payment assistance and help the households to comply with eligibility criteria for the programs. Lenders and GSEs want to serve these households after they have succeeded in addressing their particular difficulties. They are considered to have higher, but acceptable short run credit risk. HEC might accelerate or expand homeownership for these households as it is not clear whether these households would ever become homeowners without assistance.

The third group requires long-term intervention. These households typically face multiple barriers to homeownership. Years of assistance are needed to repair bad credit, establish good fiscal habits and a steady employment history, and stabilize family life. These households are not considered to be good short term credit risks. They would never own without significant, and costly, intervention.

The growth of HEC in the U.S. mirrors the shifting emphasis on minimizing default risk and marketing homeownership to the underserved. HEC got its start as part of the original legislative act that created the U.S. Department of Housing and Urban Development (HUD). The original HEC providers were geared towards post-purchase counselling for foreclosure prevention. As homeownership rates fell and affordability worries mounted, the focus shifted toward marketing. Today, the vast majority of current HEC providers focus on pre-purchase homeownership education. As concerns have begun to shift back to default risk, many providers are adding a post-purchase default prevention module as an adjunct to their pre-purchase efforts.

The HEC industry is a good example of a successful public-private partnership. With some financial support from HUD, and through the creative efforts of non-profit housing programs, HEC pilot programs were established and generated a history of success—albeit anecdotal—at expanding and stabilizing homeownership for underserved households. Through its thirty-year history, HEC has expanded from a handful of pilot programs to thousands of providers of a wide range of education and counselling services.

Structure of the report on the U.S. experience

In order to assemble an accurate understanding of both the evolution of and the current state of HEC in the U.S., a three-stage research methodology was adopted. In the first stage, semi-structured interviews were conducted with twenty representatives of national organizations with direct involvement in the provision of HEC. These "key informants" were asked questions designed to reveal their knowledge and personal opinions of the HEC industry, its history and anticipated future evolution. They were asked to answer particular questions regarding their views of the efforts of the American Homeowner Education and Counselling Institute to establish a national curriculum and certification standards for homeownership counsellors and educators.

The second stage of the research involved gathering insights into HEC through the eyes of practitioners. Given the diversity of the HEC industry, a large number of programs were selected for telephone and mail surveys to get a full picture of the U.S. experience.

The programs were selected from a list assembled from a variety of sources. The key informants from the first stage were asked to name agencies that they felt captured some of the best aspects of HEC. Another list of programs was compiled from public and private sources: AHECI, HUD, Fannie Mae, NHS, ACORN, and Cornell Cooperative Extension. From this list, a nationwide pool of 100 programs was chosen[2]. A program officer responsible for administering the HEC program was contacted at each site. Arrangements were made to either survey them over the telephone or to send the survey by mail for them to fill out and return.

In the telephone interviews, program officers were directly surveyed using the prototype questionnaire. Program officers were prompted to elaborate or clarify their responses in order to get clearer and more detailed information and to improve the survey instrument. In the mail surveys, respondents were provided the opportunity to annotate their answers in the event that they found a question unclear or they felt that clarifications to their answers were necessary.

Survey questions fall into the following categories:

- Program: geographical coverage, linkages with other organizations—lenders, local, state, or federal programs, other non-profits, "umbrella" organizations;
- Clientele served: demographic profile—age, marital status, race, gender, ethnicity of client pool, financial profile of client pool, performance of client pool;
- Services offered: types of education and counselling, materials used, amount of contact time, financial incentives offered to participants; and
- Data collected: type of data collected, frequency of data updates.

The third stage of the research ties the observations made in the first two stages of the report to what is already known about HEC. This involves a thorough examination of existing studies of HEC—mostly in the form of industry reports. Liberal use was made of data collected for unpublished research conducted for HUD in 1997. As part of that research, in-depth case studies of four HEC agencies were performed. Focus groups with counselling and education graduates were performed at each site. These focus groups offer a unique view of the HEC experience through the eyes of the clientele, providing a "human" voice to the evaluation.

In the following chapter a short history of the U.S. HEC industry is provided. In Chapter 3, an overview of the HEC industry in the U.S. is presented. In this chapter, particular attention is paid to the development of AHECI and to HEC agencies working on Native American lands. In Chapter 4, theoretical arguments for the importance of homeownership education and counselling to promote homeownership to underserved populations are presented. In Chapter 5, what is known about homeownership education and counselling in the housing literature and industry reports is presented. In Chapter 6, the impressions of industry experts regarding the HEC industry are discussed. The report includes a full bibliography and appendices that include a glossary of acronyms and unfamiliar terminology used in the report.

Chapter 2: A Brief History of Homeownership Education and Counselling

The earliest HEC efforts were designed to address foreclosure prevention rather than pre-purchase education. The stagnation of homeownership rates in the 1980s moved the industry into homeownership education and marketing. More recently, HEC programs have focused more effort on sustaining homeownership through post-purchase counselling and education programs. Today, the archetypal HEC program promotes "full-cycle" services, attending to both the homeownership education needs of its clients and offering post-purchase support including foreclosure prevention.

Early efforts to study the efficacy of HEC were confounded by industry fragmentation. The lack of comparability between programs made it difficult to measure program success empirically. Further, individual programs evolved rapidly over time, making it difficult to assess the results of a single program at different points in time. As the industry matures, the high variation between program methods and their quality is disappearing. Programs are adopting more uniform methods. Progress toward uniformity has been hastened by attempts to establish minimum curricular and certification standards by HUD, umbrella organizations like the Neighbourhood Reinvestment Corporation (NRC), and most recently, the industry-sponsored American Homeownership Education and Counselling Institute (AHECI).

Early homeownership counselling programs

Homeownership Education and Counselling (HEC) saw its U.S. genesis in 1968 as a result of urban renewal initiatives undertaken by the Johnson Administration. A "housing counselling" program was included in the Housing and Urban Development Act which established HUD. This coincided with episodes of severe urban unrest, the passage of the National Fair Housing Act and the report of the *National Advisory Commission on Civil Disorders*. Whitney Young, a member of the commission and head of the Urban League was the main advocate for the provision of homeowner counselling.

For the first two decades, HEC efforts were dominated by post-purchase counselling programs responding to widespread defaults in HUD's Section 235 program and the subsequent lawsuits undertaken by assisted households suffering through foreclosure. In 1972, HUD provided funds for demonstration default prevention programs and developed the Home Mortgage Assignment Program. In this program, lenders would transfer servicing of long-term delinquent mortgages to HUD who would allow homeowners to maintain ownership provided that they engaged in a workout plan with the assistance of a counselling agency. At around the same time, HUD began certification of counselling programs under the aegis of Section 106 legislation.

In 1974, Section 801 legislation was passed authorizing HUD to directly fund HEC programs. Regular appropriations began in 1977 when $3 million was set aside to establish counselling agencies[3]. Appropriations have risen through the years and exceed $12 million in the 1990s. HUD provided direct support for more than 300 agencies from 1988-1993. Their current list of approved programs numbers over 1200. By 1993, more than 1,000 agencies received funding from foundations, HUD, and the States. In 1997, HUD distributed $12.3 million in Housing Counselling Grants. The bulk of the grants ($7.8 million) went to 350 individual HEC providers around the nation. About one-third of the funds were distributed to five national umbrella organizations: ACORN, National Association of Housing, National Foundation for Consumer Credit, Neighbourhood Reinvestment Corporation, and Catholic Charities U.S.A. HUD budgeted $18 million to support HEC in 1999.

In 1977, the Community Reinvestment Act (CRA) was passed. The CRA mandates that regulated lenders do regular business in their "service areas." Service areas are geographically defined based on regulators' determination of the market served by lenders and their branches. Concomitant legislation, the Home Mortgage Disclosure Act (HMDA) requires lenders to make their lending performance public. Regular monitoring of lenders is not required under CRA. Instead, CRA compliance is evaluated whenever a bank attempts to merge with other banks or expand into new markets. The CRA and HMDA provided a valuable tool for housing advocates to both monitor and pressure lenders to increase lending efforts in underserved markets.

Although the CRA was passed in 1977, lenders did not take it seriously until it was first enforced in 1989. This was a watershed year for HEC, because it marks the change in orientation from post-purchase default prevention to pre-purchase homeownership education. Most industry experts attribute lenders' support of and interest in HEC to the enforcement of CRA. Now lenders rely on HEC agencies to assemble information about customers in markets in which they had little experience. Further, HEC provides a low cost marketing strategy. HEC agencies absorbed the responsibility of outreach while at the same time sorting through underserved populations for creditworthy households.

The collapse of the Savings and Loan industry in the 1980s and the credit crunch in the early 1990s led to a resurgence of interest in HEC at state and local levels. Highly volatile urban housing markets, the collapse of rural markets, and the rise in homelessness led many local leaders to worry about the American tradition of historically rising homeownership rates. This worry was amplified by a measurable decline in national homeownership rates and widespread worries about housing affordability for middle and lower-middle class households. During the early 1990s, many state housing finance agencies and city governments developed affordable housing strategies—supporting homeownership using down payment grants, soft and silent second mortgages, and mortgages underwritten at below-market interest rates.

Government agencies usual partner with local non-profits to provide outreach, homeownership education, and post-purchase counselling. An almost universal eligibility criterion for households receiving state and local support is completion of homeownership education with a certified provider. For example, the Connecticut Housing Finance Authority partnered with

Neighbourhood Housing Services (NHS) of New Britain to provide homeownership education for homebuyers receiving affordable mortgages in three Neighbourhood Revitalization Zones in New Britain. The NHS also contracts with the City of New Britain Development Office to provide HEC for households buying city-subsidized housing.

In states without extensive non-profit activities, state and local housing agencies instituted their own HEC programs. For example, because of low population densities the Alaska Housing Finance Corporation developed their own HEC program which included a mobile teaching unit to offer HEC in outlying areas. Many rural homeownership programs operate under the aegis of the Rural Development agency of the U.S. Department of Agriculture. These include self-help housing under Section 502 of the FHA, and an array of other housing support services. Rural Development has an homeownership education requirement for homebuyers in their programs. The training is often administered by multi-function rural non-profit agencies, the Rural Development offices themselves or through partnership with state cooperative extensions working through land grant colleges.

Important developments in the 1990s

In 1991-92, over-the-telephone HEC was implemented on a large scale by Countrywide Mortgage and GE Capital. Workbooks were mailed to potential homebuyers who were subsequently quizzed over the telephone to determine their command of the material. In 1994, Fannie Mae began requiring completion of a certified HEC program by borrowers as a standard for their purchase of particular affordable products. In the same year, GE Capital was able to persuade Fannie Mae to accept their telephone-based counselling (tele-HEC) to satisfy this requirement. This opened the door for the recent proliferation of over-the-telephone HEC providers. It is noteworthy that the vast majority of homeowners seeking tele-HEC have already signed purchase and sales (P&S) agreements (around 80 per cent, according to our respondents). They are seeking HEC solely because it is an eligibility requirement for Government Sponsored Enterprises (GSE) affordable mortgage products or other housing assistance. Today, all of the largest providers of HEC use over-the-telephone methods. GE Capital, Countrywide Mortgage, Mortgage Guaranty Insurance Corporation, and the Republic Mortgage Insurance Company each claim to counsel more than 250 households monthly. This exceeds the yearly output of most local programs that offer strictly face-to-face counselling and education.

The proliferation of telephone-based HEC may well be the most important recent development in the evolution of HEC in the U.S. It is noteworthy that all representatives of corporations offering telephone-based homeownership education programs expressed concern regarding the value of these programs, especially with regard to default risk reduction. Representatives of the private mortgage insurance corporations that provide tele-HEC were particularly pessimistic. One representative suggested that:

> *"accepting telephone education is the biggest mistake I've seen Fannie make. But we went right along with them. There'll be a lot of turkeys coming home to roost when the economy turns. We'll lose a lot, too, but if we don't provide it now, we'll lose market share."*

During the 1990s, concerns regarding the basic financial literacy of all homebuyers became a source of concern. Respondents from private mortgage insurers and lending institutions conjectured that the secular increase in default rates might be attributable to this decline in financial literacy. This led to a promotion of financial literacy in primary and secondary education. Most prominent among these efforts is a program developed by RMIC called *How Chuck Taylor Got What He Wanted*, a textbook and curriculum developed with Louisiana State University and Consumer Credit Counselling Services. RMIC distributes the textbooks and curricular materials free to all public schools in North Carolina and has entered into a collaboration with the State of Colorado to add the curriculum to the state high school curriculum. To date, more than 500,000 textbooks have been distributed nationwide.

Indirect federal support for HEC

A watershed legislative event for the HEC industry was the 1992 Federal Housing Enterprise Financial Safety and Soundness Act. This Act allowed HUD to set affordable housing goals for the Government Sponsored Enterprises (GSEs): Freddie Mac and Fannie Mae. Since 1992, HUD has established lending mandates which require the GSEs to perform a large proportion of their lending in underserved areas. These goals are not trivial. For example, the lending goals set for 1996-1999 requires that the GSEs purchase 50 per cent of their loans serving lower- and moderate- income households[4]. An additional 31 per cent of the loans they purchase must serve "underserved" markets[5].

Since 1992, the GSEs developed a strong interest in the value of HEC for both marketing purposes to reach the HUD goals and default risk minimization. The GSEs do not underwrite mortgages directly. Instead, they purchase loans from other originators provided that the loans conform to minimum standards set by the GSEs themselves. Most loans underwritten in underserved markets did not conform to the stringent lending standards established by the GSEs. Because they were mandated to purchase loans originated in underserved neighbourhoods, they expanded their activity in these markets through the development of special affordable products with relaxed underwriting guidelines. By attaching the counselling requirement, the HEC providers became useful marketers of the mortgages[6].

Direct federal support for HEC

Government legislative and financial support for HEC through the promotion of lower-income homeownership has a long history. Recently, the Government Performance and Results Act of 1993 required HUD, beginning September 30,1997, to submit strategic plans that contain outcome-related goals and objectives for the major functions and operations of HUD, including its homeownership initiatives. HUD promotes HEC both directly and indirectly. HUD's direct efforts include initiatives such as the Community Development Block Grant, HOME, and the HOPE programs. HUD's indirect efforts include initiatives such as overseeing the affordable mandates imposed on government sponsored enterprises (Freddie Mac and Fannie Mae), and facilitating the channeling of funds from broader capital markets into the home mortgage market through the Federal Housing Administration's insurance programs. All these initiatives are expected to contribute to the expansion of homeownership for underserved populations.

In 1999, HUD directly distributed $18 million to housing counselling agencies[7] as part of its Section 106 authorization. HUD allocated $5 million to go directly to HUD-approved housing counselling agencies, $6 million to go to multi-state intermediaries ("umbrella" organizations), and $7 million to State Housing Finance Agencies. The funds are distributed competitively within each of the three categories. Applications from housing counselling agencies were rated according to four criteria:

1) the capacity of the organization to fulfill the goals expressed in its application;
2) the extent of the housing problem addressed by the counselling agency;
3) the soundness of its counselling approach; and
4) the organization's ability to leverage other funding once the HUD funding is in place.

HUD has historically provided the bulk of ongoing financial support for HEC programs. It has never been HUD's intention to cover all HEC costs, but rather to help establish programs so that they can attract other sources of funding.

FHA mortgage insurance discounts for first-time homebuyers with HEC certificates

HUD has provided direct grant support for HEC agencies since the late 1960s. Through the Federal Housing Administration, it has also provided indirect support for HEC initiatives by providing a direct incentive for first-time homebuyers to attend homeownership education or counselling.

The General Accounting Office (GAO) reported in1996 *(Homeownership: FHA's Role in Helping People Obtain Home Mortgages)* that two-thirds of FHA home loans would not have qualified for private mortgage insurance (PMI). Many of these households earned lower or moderate incomes or could not satisfy conventional underwriting guidelines. This raised concerns that many potential homeowners from underserved populations were being turned away by conventional lenders because they could not qualify for conventionally insured mortgages. There were also concerns that the FHA, by acting as the mortgage insurer of last resort, was inheriting an adversely selected, riskier pool of borrowers than conventional mortgage insurers. As noted above, foreclosure rates on FHA-insured loans are more than twice as high as rates on conventionally insured loans.

FHA already offered particularly attractive mortgage insurance for its borrowers. For example, the FHA insures 100 per cent of the principal outstanding balance (POB), while private providers will only pay a claim up to 30 per cent of the POB. FHA mortgage insurance also allows lower down payments, up-front financing of closing costs and insurance premiums, and higher LTV loans.

The FHA limits the sizes of mortgages it will insure according to three guidelines. First, FHA sets mortgage limits according to limits used by the Federal Home Loan Mortgage Corporation (Freddie Mac). FHA sets its limits at 48 per cent of the Freddie Mac limits in a given year. In 1998, the FHA limit for single-family homes was $109,032. The FHA adjusts mortgage limits in high housing cost counties or metropolitan areas. About one-third of U.S. counties are designated as high-cost. FHA adjusts the percentage of the Freddie Mac limits upward in high-cost markets. The rates can go as high as 87 per cent of the Freddie Mac limits. The 1998 limit for insured mortgages in high cost areas was $197,620 for single family houses.

In order to help promote homeownership for households in underserved populations and at the same time protect its portfolio risk, the FHA adopted a discount plan for qualified mortgagors. FHA offers a reduced up-front rate of 1.75 per cent (0.5 per cent lower than its standard rate of 2.25 per cent) on mortgage insurance for first-time homeowners who graduate from HUD-approved HEC programs[8]. For HUD approval, HEC providers must be non-profits offering face-to-face HEC either in classes or individual counselling. FHA mortgage insurance premium reductions are not provided to households enrolled in tele-HEC programs. Agencies that provide classroom instruction are required to cover the topics in HUD's Homeowner Education and Learning Program (HELP)[9]. In 1998, the FHA expanded their discount program, providing an additional 0.5 per cent discount to first-time homebuyers that complete HUD-approved HEC training purchasing homes in central cities. This reduces their up-front insurance rate to 1.25 per cent of the insured loan value.

The underlying rationale of the program is based on the belief that homeownership education or counselling significantly reduces default risk. In theory, the risk mitigation provided by HEC would compensate for both the adverse selection and the reduced rate. In discussions of the program with HUD, researchers were told that there is no statistical evidence offered to validate the size of the discount or to quantify the extent to which HEC reduces default risk. The FHA hopes to trim management costs, through automation, in order to finance part of the rate reductions[10].

Chapter summary

The HEC industry developed in a haphazard fashion. Its development was reactionary—responding to market forces, political expedience, and the creative efforts of local advocates. Most early efforts received critical, but limited, funding from HUD to get established. Most of these programs were originally designed to respond to specific local housing issues. In many cases, HEC was an adjunct to a larger campaign of housing rehabilitation or neighbourhood development.

Events of national significance drove the evolution of the HEC industry. The enforcement of the CRA prompted the lending industry to turn to HEC providers to help penetrate underserved markets. This was coupled with the credit crunch and falling homeownership rates of the late 1980s that spurred interest in HEC at both state and local political levels. National legislation like the 1992 Federal Housing

Enterprise Financial Safety and Soundness Act further solidified HEC's importance to the lending industry — strictly as a marketing device. The rebound in homeownership rates during the 1990s suggests to some that HEC and affordable lending efforts have paid off.

HEC evolved through the interaction of "bottom-up" innovation and "top-down" support. This evolutionary model led to what was characterized by most industry watchers as "fragmented." Worries about industry fragmentation and unstandardized delivery of HEC services led to attempts to impose more rigorous standards on HEC providers. Most prominent among the standardization efforts is the American Homeownership Education and Counselling Institute (AHECI) that will be described in detail later in this report. However, there is good evidence that in the absence of significant top-down intervention, the industry has already begun to standardize. Experimentation at the local level and inexpensive distribution of materials among HEC providers has contributed to a spontaneous adoption of a standard curriculum.

It is important to keep in mind that HEC had a fundamental and important role in the expansion of lending to underserved markets without any credible evidence that it helped to mitigate default risk. However, it must be kept in mind that there is more than one way to minimize credit risk. HEC has always played an important role in identifying good credit risks among underserved populations. Lenders with little experience in these markets and no experience with alternate methods for establishing creditworthiness came to rely on HEC agencies to send them mortgage-ready households.

It is equally noteworthy that regulated lenders were loath to use their own traditional tools to sort through underserved markets themselves. One criterion used to measure banks' success in complying with the CRA is their denial rate. Denials are reported as part of HMDA and scrutinized regarding demographic correlates. Banks with higher denial rates for minorities or higher denial rates for potential homebuyers in specific neighbourhoods are likely to be evaluated more harshly than banks with low denial rates. Increasing mortgage applications from underserved borrowers are of no use to regulated banks if they swell their denial rates. A critical service provided by HEC agencies is to send "mortgage-ready" households from underserved populations to the bank. This wins the bank "brownie points" for both CRA compliance and keeps denial rates low.

An illustration of the importance of denial rates is the case of Milwaukee, WS. In the early 1990s lenders in Milwaukee were reported to have the worst racial disparity in denial rates in the country (based on analysis of HMDA data). This was widely reported in the press and drew angry attention from state and local politicians because it identified Milwaukee as a "racist city" to the rest of the country. The city of Milwaukee convened a meeting with lenders and community development corporations (CDC) to address the situation. The initiative New Opportunities for

Homeownership in Milwaukee (NOHIM) arose from the meeting. NOHIM is a collaborative effort between the City of Milwaukee, forty-two mortgage lenders serving the city, and a dozen CDCs. A wide variety of affordable mortgage instruments, down payment assistance grants and other supports for low-income housing were put in place. More importantly, lenders agreed to pay a "bounty" of $450 to HEC providers for each mortgage closed with one of their counselling graduates. This underscores the importance of HEC as a marketing and screening device for lenders.

Chapter 3: An Overview of the Homeownership Education and Counselling Industry

It is important to distinguish homeownership education and counselling according to when in the purchase and ownership process counselling or education is provided, and the type of counselling or education provided. Table 1 illustrates the types of counselling and education usually offered by HEC agencies.

Table 1. Taxonomy of homeownership education and counselling programs

Homeownership Education and Counselling			
Pre-purchase		**Post-Purchase**	
Education[ii]	**Counselling**	**Counselling**	**Foreclosure Prevention**
Instruction regarding the process of finding, purchasing and financing a home. Acts as a marketing and screening device for lenders. Often done in classes, over the phone, and rarely one-on-one. Often done in unison with counselling or as screening for counselling. A requirement for many affordable lending programs. Least costly of all programs and has the best-developed educational materials. Provided by non-profits, government agencies and for-profits: lenders, realtors, mortgage insurance companies. Largest programs use over-the-telephone methods.	Resolution of barriers to homeownership. Usually involves repairing credit or work history problems-turning sub-prime candidates into A or A- borrowers. Typically done one-on-one, sometimes supported by group classes. Often a long, intensive process—can take three to five years. Is labor intensive and costly. Most often provided by non-profits. Usually integrated with post-purchase counselling efforts.	Ongoing instruction in ways to make homeownership sustainable. Usually includes instruction in housing inspection and maintenance, budgeting, and crisis prevention. Sometimes includes instruction in senior annuity (reverse) mortgages. Sometimes involves active monitoring of household behavior by provider. Typically conducted in classes with some one-on-one visits to homes by providers. Very few programs in operation. Provided by non-profits- particularly those who act as developers or underwrite second mortgages.	Crisis intervention to assist borrowers already in deep trouble. Often kicks in after long delinquency. Provider acts as both counsellor and intermediary between borrower and lender. Often requires costly support for borrowers. Can be time intensive and costly. Has the longest history of all programs. Provided by both for-profits and non-profits.

Pre-purchase education and counselling

Pre-purchase education and counselling includes both general education and more intensive one-on-one counselling. Homeownership education is usually conducted in group settings and covers such topics as: determining how much housing a client can afford; selecting a realtor; selecting a home; understanding housing finance and the closing process; recognizing the importance of maintenance and repairs after home purchase; and knowing how to avoid default or foreclosure. Depending on local conditions, particularly the configuration and condition of the housing stock, pre-purchase programs sometimes offer landlord training modules and instruction in rehabilitation and renovation.

It is important to distinguish between pre-purchase homeownership counselling and education. Education is general in nature and provided to help households determine whether homeownership is right for them. Education may include the provision of brochures, classroom-type seminars, and other such activities. In contrast, pre-purchase counselling is more rigorous. It often takes place over a longer period of time, includes one-on-one credit and financial counselling in addition to the provision of the educational materials mentioned above. Counselling providers can, and often do, screen clients to determine whether they are ready or able to purchase a home. For example, Seattle HomeSight will not allow a client to purchase one of their homes without a minimum of one-year continuous clean credit. Chattanooga Neighbourhood Enterprise will not allow a household onto its Fastrak to Homeownership if they cannot prove that they have saved the equivalent of a two-per cent down payment for a home.

Pre-purchase counselling efforts, often offered in unison with homeownership education, include direct intervention in the lives of potential buyers. Pre-purchase homeownership counselling programs usually feature: assistance in establishing and improving creditworthiness; help in setting and achieving income goals; help in setting and achieving savings goals to finance down payment and closing costs; and, assistance to households to find and qualify for sources of assistance from lenders and local programs. Counselling is almost always face-to-face. It is considerably more time intensive and expensive to provide than homeownership education.

Some of the largest providers of pre-purchase HEC provide education over the telephone (tele-HEC). In these programs, workbooks are sent to potential homebuyers. The clients are provided a toll-free telephone number to contact a homeownership educator if they have questions regarding workbook exercises. After the client has completed the workbook assignments to their own satisfaction, they agree to be quizzed by a representative of the HEC provider. If the client passes the quiz, they receive a counselling certificate through the mail. Most tele-HEC providers are quite large, educating 200-300 clients per month. A large majority of their clients have already signed purchase and sale agreements.

Post-purchase education and counselling

Although the first housing counselling programs were post-purchase foreclosure prevention programs, post-purchase counselling programs are far less prominent than pre-purchase programs today. Two main types of post-purchase HEC offered are: default prevention counselling, designed to assist borrowers with mortgage repayment problems; and, post-purchase education programs that cover topics such as home maintenance skills, senior annuity (reverse) mortgages and budgeting.

Foreclosure prevention usually includes financial planning and assistance in developing a debt workout plan acceptable to both lender and borrower. A major component of post-purchase or default prevention counselling is the mediating role played by the counsellor vis-a-vis the homeowner and lender. Often, the agreement to participate in default prevention counselling is enough to gain forbearance from a lender[12].

Post-purchase education programs are designed to sustain homeownership by assisting households in managing ownership responsibilities and budgets. Many HEC providers have assembled "tool libraries" to support maintenance instruction. A growing component of post-purchase education programs is assistance in handling credit. This includes help in avoiding predatory lending as well as instruction in new post-purchase mortgage instruments. Most prominent among these are senior annuity (or reverse) mortgages, and home equity lines of credit (HEL). A small but rapidly growing share of senior citizens seek access to illiquid housing equity to support them in their retirement. Many are unfamiliar with the structure of senior annuity mortgages or HELs. Many HEC providers have added post-purchase instruction, usually available to anyone seeking it, to help navigate the intricacies of these mortgages.

There has been recent renewed interest in post-purchase counselling and education programs. For the most part, established HEC providers are adding new post-purchase programs to their pre-purchase efforts. This movement toward "full-cycle" homeownership assistance is an industry response to concerns about the sustainability of homeownership for traditionally underserved homeowners. The NeighborWorks Organizations (NWO), have been the most prominent advocates of the full-cycle approach, establishing "Full Cycle Lending" as part of its Campaign for Homeownership in 1994.

Services offered by HEC providers

HEC agencies offer a wide array of services. The typical pre-purchase counselling program will usually:

- assess a family's ability to purchase a home based on income and credit history;
- help to repair, or to establish, credit histories for those with bad or no credit;
- monitor household income and expenditure;
- advise and assist clients in finding employment opportunities to increase inadequate incomes;
- review all aspects of the purchase and the financing of a home; and
- link clients with lenders, real estate agents, and social service agencies.

Some HEC providers offer other services aimed at facilitating or helping sustain access to homeownership, these include:

- down payment assistance;
- favorable mortgage terms through affiliated lenders or their own underwriting services;
- screening for admission to federal, state, or local home buyer subsidies;
- forbearance from lenders if the client has trouble making mortgage payments; and
- post-purchase counselling to assist in money management, home maintenance, or work out schemes to prevent foreclosure.

HEC agencies are often multi-function organizations that include HEC as one part of a comprehensive lower-income homeownership or community development strategy. Other programs in which HEC agencies often engage include:

- affordable housing development and production;
- rehabilitation and sale of the existing housing stock;
- mortgage (first or second) underwriting;
- development and/or management of lower-income rental property;
- small business development; and
- organizing community programs—childcare, neighbourhood gardens, neighbourhood watch, sports leagues, etc.

HEC agencies often perform the critical, and often overlooked job of streamlining local housing policies. HEC agencies help to identify administrative inefficiencies and antiquated regulatory barriers. For example, the New Britain, Connecticut Neighbourhood Housing Services (NHS) is leading a statewide effort to make building and fire codes consistent and consistently enforced. They had encountered significant problems rehabilitating multi-family owner-occupied housing because of insurmountable administrative barriers, mostly due to inconsistencies in the codes and their enforcement.

Their linkages with other organizations enhance the quality of services provided by individual counselling providers. There are two important types of linkages: those that connect clients (program participants) with other services, and affiliations of the agency itself with other organizations. The two categories are not mutually exclusive. For example, a counselling provider will have better access to information and be able to link clients to U.S. Department of Housing and Urban Development (HUD)-sponsored programs more effectively if it is affiliated with HUD as a HUD-approved counselling agency. Further, agencies like the Neighbourhood Housing Services (NHS) or the Association of Community Organizations for Reform Now (ACORN) share educational or informational resources with their affiliates.

Linkages might work against clients, as well. An agency that is formally linked to a neighbourhood development agency might be limited in geographic scope regarding where it can place its clients. For example, homeowners counselled by Home Ownership Center agencies in Minneapolis/St. Paul do not have access to all the special lending programs outside of the central cities. Financial support in the form of down payment assistance or second mortgages is not available for those who choose to buy in the suburbs because some lenders' programs and affordable housing products are restricted to specific geographic locations.

Linkages can be manifold and complicated. Counselling providers might be affiliated with several national organizations, a regional organization, multiple state organizations, and several local services. The support options offered to clients might differ dramatically depending on which agency provides support and the jurisdiction within which a desired home falls. Sometimes, a main feature of the counselling service is to unravel the various support options to enable households to make the best-informed choice.

Program support for local HEC agencies

Counselling providers can also be divided into those who offer training for others who will provide the counselling and those who only offer direct counselling services. For the purpose of this report, the former are designated as "umbrella" agencies. These agencies develop a curriculum, produce and circulate educational materials, and train counsellors who then work with local community development agencies to provide direct counselling. Often, umbrella agencies act as direct providers of counselling services while they train others. Sometimes, umbrella agencies act as clearinghouses for information and data collection. For instance, three major umbrella agencies are the Neighbourhood Housing Services (NHS), ACORN, and the Cornell Cooperative Extension. These agencies provide materials and training for counsellors who work at the local or state level. The NHS acts as a rather loose umbrella over a large and diverse set of urban-based providers of homeownership counselling (and a variety of other community services). The Cornell Cooperative Extension provides materials and training for other state cooperative extensions as well as hundreds of direct providers of counselling in New York. The Cooperative Extension services generally target rural areas.

Some counselling programs have cloned themselves in other locations. A good example of this type of expansion is the Twin Cities Mortgage Foreclosure Prevention Program. The main funder of this program, the Northwest Area Foundation, funded replications of the program in Oregon, Idaho, and Iowa. The Twin Cities' program staff helped provide training and technical support for counsellors at those sites.

Some counselling providers are strictly local, direct providers. These agencies generally arise in response to local demand for services. Often, they work closely with lenders and other community development organizations with homeownership programs. For example, the Durham Affordable Housing Coalition (DAHC) in Durham, N.C. began a counselling program to support a variety of affordable housing initiatives already undertaken by the organization.

Characteristics of HEC agencies and their programs—survey results

With the sample of HEC agencies contacted for the study, it is possible to provide a snapshot of the agencies. It is important to keep in mind that the sample of HEC agencies contacted was not randomly selected, so it is not advisable to draw inference from this sample to the national HEC industry.

a) Characteristics of delivery agencies

The average program:

- has been in operation for more than 18 years;
- has provided counselling for more than five years;
- is usually a non-profit organization, although those operating through Cooperative Extensions and Rural Development are quasi-governmental organizations; and
- was approached by 490 households for counselling or education in the last year (minimum—58, maximum—3500).

b) HEC clientele, program results:

- graduated 67 per cent of those who applied for counselling;
- offered nine hours of classroom time in education programs and 2.5 hours of one-on-one counselling (not counting tele-HEC); and
- between 25-40 per cent of course graduates ultimately become homeowners with the following profile:
  - 71 per cent of counselling graduates who bought homes did so within a year. Nine per cent required more than two years to buy;
  - delinquency rates for counselling graduates who purchased homes averaged 6-10 per cent (for agencies that track graduates); and
  - default rates averaged less than 1 per cent (for agencies that track graduates).

c) Educational materials and practices used by HEC agencies:

- Fannie Mae (used by 62 per cent) provided the most popular materials; the Mortgage Bankers Association (36 per cent), materials provided by HUD (27 per cent) and the Fastrak to Homeownership Materials developed by Chattanooga Neighbourhood Enterprises and distributed by NW (26 per cent);
- most programs developed their own curriculum (56 per cent) often using the materials mentioned above;
- 48 per cent of the agencies screened applicants prior to program admission;
- 24 per cent of households that approached programs for counselling had already signed purchase and sales (P&S) agreements. This proportion varies widely between programs. More than half of the programs (54 per cent) had fewer than 10 per cent of counselling entrants with signed purchase and sales agreements. Several very large programs reported that more than 70 per cent of their entrants had signed P&S agreements—typically the programs that offered over-the-telephone services;
- rural agencies tended to be smaller (25-50 counselling graduates per year) and also tended to be multi-service (78 per cent);
- rural agencies and agencies in older manufacturing cities are more likely to be engaged in housing production and rehabilitation;
- 62 per cent of the programs contacted provide pre-purchase education and counselling only; very few (5 per cent) provide only post-purchase programs. Of the programs that offered only pre-

purchase education nearly half (43 per cent) intended to add post-purchase programs in the future; and
- all agencies reported having automated underwriting or automated counselling software at their site. The majority of the programs had Fannie Mae's Desktop Counsellor (58 per cent), followed by NeighborWorks 2000 (18 per cent); Fannie Mae's Desktop Underwriter (16 per cent); and Freddie Mac's Loan Prospector (5 per cent). Only one in three agencies reported actually using the software. All expressed the intention of using the software in the future.

d) HEC agencies-partnerships with others:

- All non-profit programs had at least one national affiliation — either with HUD, Fannie Mae, and/or national umbrella agencies like Cooperative Extension, NHS, or ACORN;
- 73 per cent of programs have developed partnerships with local lenders — usually providing HEC for borrowers who apply for special lender products; and
- 64 per cent of the programs are linked to local governmental programs— usually at the state, county, or city level.

e) Barriers to Homeownership addressed by HEC programs:

- Agencies in areas with robust housing markets (e.g. growing areas of the southwest, south, Boston, New York, Washington, D.C.) were most likely to list affordability and housing supply as major barriers to homeownership.
- Agencies in declining and/or rural markets most often listed affordability (lower income) and housing quality as major barriers to homeownership.
- When asked to list the major barriers to homeownership faced by their clients, agencies mentioned:
    - credit problems (100 per cent);
    - lack savings for down payment and closing costs (93 per cent);
    - lack of knowledge regarding the home purchase process (79 per cent);
    - affordability (high prices, low income) (77 per cent);
    - cultural/linguistic barriers (63 per cent);
    - lack of knowledge regarding available housing support (57 per cent);
    - lack of availability of decent housing (23 per cent); and
    - High construction costs (19 per cent).

f) Key program strategies employed

Agencies listed the following major strategies that they employ to help clients purchase homes:

- budget planning and fiscal discipline (100 per cent);
- demystifying the home purchase process (96 per cent);
- credit repair (79 per cent);
- down payment and closing cost assistance (57 per cent); and
- 47 per cent of agencies provide clients access to financial assistance, most often in the form of "soft" or "silent" second mortgages with special terms. The average second mortgage is $8000, although it is highly variable (low: $1000, high: $120,000).

g) Clientele/outreach characteristics:

- All agencies identify referrals from friend, lenders, government agencies, or realtors as a main outreach mechanism;
- 82 per cent listed "word of mouth" or "referrals" as the most effective means for attracting clients ;
- Almost all agencies target specific populations or geographic areas. More than half (56 per cent) of the agencies targeted households with incomes below 80 per cent of the HUD-adjusted local area median income;
- Almost all agencies (91 per cent) collect and keep data on counselling participants when they enter the programs; only 22 per cent of the agencies follow up this data after purchase;
- Urban areas tend to serve younger clientele and smaller families than rural areas;
- 42 per cent of clients are single heads of households; more than 93 per cent of these household heads are female;
- One racial/ethnic group dominates the clientele of 84 per cent of agencies;
- Almost half of agencies (44 per cent) have mostly white clients; and
- 48 per cent of the agencies charge clients a fee for counselling and education services, usually $25. Fees ranged from $20 to $145.

HEC agencies working with Native American and Native Alaskan populations

Special attention was paid to HEC programs targeting Native American and Native Alaskan households. These programs face the most daunting barriers to homeownership of all the agencies contacted. Important housing and environmental characteristics that distinguish these agencies' efforts to facilitate and enhance access to homeownership from more conventional HEC providers are: extreme affordability problems; extreme shortages of decent housing; high costs of providing counselling and other housing services because of remote locations; and, institutional difficulties and cultural barriers to homeownership.

More than half (59 per cent) of the population living in remote tribal areas have incomes below 50 per cent of the HUD-adjusted area median. Less than 10 per cent of the working-age population of these areas is employed by for-profit enterprises. In Alaska, only 8 per cent of working age natives are employed by for-profit enterprises.

Development costs are very high on tribal lands. They averaged $65 per sq. ft. in 1994 compared with a national average of $30-40. More than 60 per cent of tribal lands are located in remote areas. There is a high variation in development costs from area to area. In Alaska and the Pacific Northwest, development costs averaged $121 per sq. ft and $76 per sq. ft. In the North Central and Eastern regions development costs averaged $49 per sq. ft.

The U.S. Census reports that 28 per cent of housing in tribal areas is substandard—e.g. overcrowded lacking adequate plumbing, electrical, or kitchen facilities. This is more than five times the proportion of substandard housing for the national population. A recent HUD survey reports that more than 40 per cent of housing on tribal lands is substandard. In Alaska, 63 per cent of housing in native villages is substandard.

Lenders have been unwilling to lend in tribal areas because of the legal impediments associated with recovering loan amounts in the case of a default. Indian lands are held in trust and its inalienability forbids its use as collateral for a loan. Although this seems like an insurmountable obstacle, there are numerous examples of mortgage lending in areas with lands held in trust. The main obstacle presented by the inalienability of tribal lands involves establishing trusting relationships between lenders and tribal authorities regarding resolutions of defaults.

More pronounced obstacles addressed by HEC agencies involve lack of information and attitudinal barriers to homeownership. Because the legal and banking infrastructures are not present on tribal lands, there is little colloquial knowledge regarding how to purchase a home. A large proportion of Native American homeowners does not have mortgages on their properties. Further, when property is transferred, it is usually passed down from one family member to another. With the very low homeownership rates on tribal lands, the home purchase and borrowing experience of family or friends is a rare source of information for prospective homebuyers. Consequently, the information that is available is either incomplete or erroneous.

Cultural barriers to homeownership are generally based on attitudes derived from tribal historical experiences. Because of a bad historical experience with treaties and other agreements Native Americans tend to be highly suspicious of contractual agreements with non-Native American institutions. An enduring attitude based on older federal policies has also produced a mindset among Native Americans that housing should be provided by the government for free.

HEC agencies operating in tribal areas

HEC agencies working in tribal areas face daunting barriers, many of which fall outside the scope of the archetypal HEC approach. As such, they almost invariably provide multiple services. These agencies act as housing developers as well as policy advocates, helping to articulate the unusual housing need of their constituents to local and national authorities. Many of the "talents" of HEC agencies are brought to bear in creative ways on the housing problems faced by Native Americans. For example, because HEC agencies hire and train local people to perform outreach and teach classes, they help erode local suspicion of outside agencies.

The networking ability of HEC agencies has been put to particularly good use in overcoming perceived institutional barriers. For example, HEC agencies have acted as intermediaries in developing productive and beneficial relationships between lenders and tribal authorities to institute practices to overcome the land inalienability problem. Federal and private support of homeownership on tribal lands involves many more government agencies and programs than in non-tribal settings. HEC agencies are instrumental at connecting individuals with support and act as clearinghouses of accurate information for homebuyers.

The remote locations of many tribal lands, especially areas like Alaska, make it difficult to reach potential homeowners to offer homeownership education. HEC providers have developed mobile classrooms and arrange classes over the Internet, telephone and CB radios.

Probably the most important contribution made by HEC agencies working in tribal areas is the "demonstration" effect. Once a few families are established as homeowners in tribal areas, many perceived barriers to homeownership are quickly eroded. The Alaska Housing Finance Corporation reported that when it first began offering classes in remote areas, they would get six or eight households to show up for courses. Now they routinely close class enrollments at 25-30 people because their teaching sites cannot accommodate larger classes.

Illustrative example of a Native American HEC program

The Navajo Partnership for Housing (NPH) in Window Rock, Arizona is a good example of a HEC agency operating on tribal lands. Founded in 1996, it has just begun to establish itself as a local housing authority. By 1998 it had closed its first two loans. Currently, it has another dozen loans approved (with families waiting for suitable housing to be built). It has graduated 150 households from its HEC training using a special curriculum that was developed on-site to address Indian housing issues.

The NPH identifies seven important barriers to homeownership that the agency addresses:

1. **Legal problems associated with inalienable lands.**

The NPH worked with the Navajo, Fannie Mae, and the Bureau of Indian Affairs to establish the 200c homesite lease, under Section 200c of the U.S. Federal Housing Act (FHA). This built on the existing Navajo Deed of Trust, which gave Navajo tribe members exclusive rights to one acre of land for 65 years. The 200c lease allows the leasehold to serve as collateral for a housing loan. However, although this lifted many legal restrictions regarding default resolution, legal exercise of foreclosure still fell under tribal jurisdiction. This concerned many lenders who were still unwilling to underwrite home loans. To address this, the NPH developed partnerships with Norwest and the First National Bank of Farmington, NM to underwrite 200c loans. They hope that this will help to establish a record of successful lending and attract other lenders.

HUD provided direct assistance beginning in 1995 to alleviate legal barriers to homeownership through the Section 184 loan guarantee. Under Section 184, HUD guarantees 100 per cent of the loan value for residential loans made to Indian households on tribal lands. HUD imposes no strict income-eligibility guidelines and further guarantees that in the case of a foreclosure they will transfer the property to another tribal member assuaging tribal concerns of losing land. Recently, the GSEs agreed to purchase loans that were guaranteed by Section 184.

2. Extensive bureaucratic obstacles.

Homesite leases require several levels of approval—from the local land office, then the tribal land office, and then the Federal Bureau of Indian Affairs must give final approval. New construction requires several levels of approval from tribal and federal agencies. All construction on tribal lands requires both archeological and environmental impact studies. Different people who are required to sign off before construction often hold grazing, mining, and water rights. The approval process can be quite time consuming because many of the tribal councils meet only once a month and many of the approvals must be conducted sequentially. The NPH has begun to streamline the bureaucracy, instituting practices and standardizing documents so that the process is not so daunting for homebuyers.

3. There is no housing market.

Because so few mortgages are available and construction of new housing involves navigation through a bureaucratic quagmire, there is no housing market. New housing is constructed only after individuals have secured the requisite deeds and permissions. When housing is constructed, costs are increased because contractors and builders must travel long distances. Further, no economies of scale can be realized because the housing is produced in single units. This amplifies the difficulty of HEC training because potential homeowners cannot consider buying existing pre-built homes. It also makes lending more complicated because appraisal of housing to estimate loan-to-value ratios is impossible without a local market. The NPH is hoping that this problem will subside as a housing market emerges through their efforts. They are also considering helping to develop multi-unit housing initiatives.

The U.S. Congress is helping to address the lack of a housing market on tribal lands. It passed the Native American Housing Assistance and Self-Determination Act (NAHASDA) in 1996, which provides block grants to Indian Housing Authorities. The Navajo Housing Authority (NHA) receives an annual allocation of $86 million part of which is being used to build a multi-unit development. The NHA will sell the units to tribal members who can secure private financing.

4. Lack of familiarity with home purchase essentials.

Because no housing market exists and most owned housing is passed down from generation to generation, borrowing to purchase a home is an alien concept to the Navajo. The NPH notes that many qualified individuals do not consider buying homes merely because they are not familiar with the concept. They noted that most potential homebuyers were unfamiliar with many concepts taken for granted in other areas—e.g. the mortgage interest tax deduction, closing costs. This is exacerbated by the bureaucratic gauntlet that potential home buyers face. The NPH addresses this through HEC training and its own specially designed curriculum.

5. **Suspicion of banks and contracts with non-tribal institutions.**

Most potential homebuyers are younger households. Most tribal authorities are elders. Elder tribal members tend to be more suspicious of arrangements made with non-tribal institutions—one legacy of a history of broken treaties. These elders are often unwilling to approve contracts that include provisions for the repossession of land. Young buyers need the approval of tribal elders in order to secure permission to build and receive deeds. Resistance of tribal elders can permanently block the construction or purchase of a home. NPH hopes to erode this resistance by establishing a good track record with its trained homebuyers—especially if foreclosure rates can be kept low. However, at this point in its development, the NPH has not instituted any post-purchase counselling effort.

6. **Poor or no credit.**

Because of the lack of a housing market and a general unavailability of credit, most Navajo are unfamiliar with the importance of good credit to secure home finance. Many Navajo are unfamiliar with bank accounts in general and participate in an almost exclusively cash economy. tribal members using credit have had bad experiences with pawnshops or merchants charging exorbitant interest rates. The NPH helps its clients to build good credit histories or establish good credit through non-traditional means.

7. **Low income levels or high debt burdens.**

More than 60 per cent of the Navajo earn less than $20,000 per year. Of those obtaining credit, most often to purchase an automobile, lower incomes push their debt burdens past acceptable limits to secure a mortgage. Only the richest Navajo can afford to purchase housing. Without vibrant local labor markets, it is difficult to address the lower-income issue. The NPH hopes to reduce housing development costs to reduce the impact of lower incomes, but ultimately the lower-income issue falls outside of the scope of housing efforts.

It is noteworthy that the most dominant barriers to homeownership that other HEC agencies are facing fall at the end of the list for the NPH. This gives one the sense of the complexity of home purchase on Native lands and the important role played by the NPH not only to educate and counsel potential homebuyers, but also to begin to erode the obstacles.

Recent developments—a heightened interest in HEC by housing industry stakeholders

The fragmented nature of the HEC industry and its unregulated evolution have left many stakeholders in the U.S. housing industry worried about the quality of services delivered by HEC agencies. Although HUD established certification guidelines for HUD-sponsored agencies, many quality HEC providers fell outside of the HUD umbrella. To address these concerns, Fannie Mae initiated the American Homeowner Education and Counselling Institute (AHECI) in 1996. It was Fannie's hope to bring together a comprehensive group of industry stakeholders to establish both national curricular guidelines and certification standards. Fannie invited other GSEs, large lenders, mortgage insurers, realtors, and national housing non-profits to participate in the effort[13].

In this section, the National Curriculum and Certification standards are presented. Stakeholders' views of the process of producing the documents are also discussed. The recommendations of the Research committee are discussed later in the section.

Funding for AHECI

For-profit members each put up at least $200,000 of initial funding for the institute, while non-profits were not required to put up any funds. Several for-profits put up a larger share. Fannie Mae representatives pointed out that both the Fannie Mae Corporation and the Fannie Mae Foundation each contributed $1 million for a total commitment of $2 million. HUD also provided $500,000 of initial funding. Several non-profits offered their financial assistance for the enterprise, although on a smaller scale than the other industry stakeholders did. At the time of this report, AHECI did not have a source of ongoing funding. Several key informants mentioned the concern that unless AHECI produced some early results, the current members might not provide continued funding.

Goals of AHECI

AHECI was established to accomplish five goals:

- To establish national accreditation standards for providers of HEC;
- To develop a core curriculum for HEC;
- To research the costs and benefits of HEC;
- To establish the means for self-financing of HEC initiatives; and
- To establish an informational clearing-house for HEC materials and methods.

AHECI assembled five working committees to develop strategies to achieve each of the goals. Each committee was charged with the task of preparing a draft of its recommendations. To date, three committees have circulated draft recommendations: the Research committee, whose draft recommendations were circulated at the end of 1997; the Curriculum and Certification committees released their draft recommendations in July 1998 for comment. These drafts are currently being revised in response to practitioners' commentary.

AHECI's draft curriculum

The draft curriculum is a comprehensive volume presenting a model course structure for HEC providers. It provides significant detail for teaching eleven main course modules. Each module includes detailed lists of topics that instructors should cover in homeownership training. A fairly comprehensive reference list of materials is included with each module, as well. In order to cover the wide scope of the curriculum it is estimated that at least

10-12 hours of class time will be required. This is a little longer than most homeownership training courses currently offered.

Members of the AHECI board who were also members of the Curriculum committee were interviewed for this report. They were asked to comment on the process of developing the curriculum. Most respondents reported that developing the curriculum was a straightforward process, generally free of rancor. Several commented that they felt that the curriculum was too long. They considered this part and parcel of the politics of consensus building—e.g.: It is easier to add components than it is to create controversy by removing or trimming sections with strong proponents[14].

Table 2: AHECI's draft curriculum[15]

The Basics: Preparing for Homeownership.
What to expect
Benefits of homeownership

The Home Buying Process.
Renting versus owning
Considering whether to rent of buy
Is the buyer ready?
Types of construction, homes, and home ownership
Time line for home ownership

Lifelong Money Management.
Examining spending styles
Understanding financial conditions
Distinguishing between wants and needs and establishing financial values and goals
Developing a budget or spending plan
Credit management
Traditional and non-traditional financial services
Cost of homeownership
Tax benefits of homeownership

Financing a Home
Who's who in home financing
Understanding the language of lenders
Many mortgage alternatives
Choosing the right mortgage

Qualifying for a Mortgage
Borrower qualifications
The mortgage qualifying process

Shopping for a Home.
Legal aspects of homeownership
Fair housing for everybody
Real estate professionals
Shopping carefully and evaluating the potential home
A safe and healthy home
Making a purchase offer

The Loan Application Process.
Applying for a loan
The approval process
If the loan is rejected

The Closing Process.
The closing "ceremony"
Preparing for the closing
Documents at the closing
Closing costs
Settlement or closing agents

Life as a Homeowner.
Financial planning
Home equity
Taxes

Getting to Know, and Taking Care of, the Home.
An owner's manual for the home
Hiring somebody to do repairs
Energy conservation

How to Prevent Foreclosure.
Surviving a financial crisis
Communicating with the servicer
Managing the financial crisis
The foreclosure process

Although the curriculum might seem long, it is not clear that any sections can be removed without losing the comprehensive nature of the instructions. When the curriculum is compared with other curricula prepared by other agencies, it compares quite favorably—other curricula covered the same topics but not in the same detail.

AHECI's draft recommendation on certification standards

The Certification Committee released its draft recommendation at the same time as the draft curriculum. In it, the Committee presented an outline of certification standards for HEC providers in rather vague terms. Section 2 of the draft, which discussed the development of standards, lists about three dozen issues to be addressed by the Certification Committee. These include:

- distinguishing homeowner education from homeowner counselling;
- the different certification standards that will apply to education and counselling;
- establishing standards for the accreditation of agencies;
- codes of ethics and conduct;
- evaluation of competency;
- decertification and recertification standards; and
- training, testing, and certification methods.

The document lists 42 "broad consensus" items that were discussed by the committee. They are organized into three sections: training; testing and certification; ethical standards and code of ethics. The Committee reached agreement on 33 of the items and nine remain unresolved. Six of the nine fell in the ethical standards category. Noteworthy, for the purposes of this report, are the following broad consensus items:

- a HEC course must entail a minimum of eight hours of contact time for certification;
- homeownership training will be face-to-face, although alternatives for interactive learning will be explored;
- program participants must be tested before receiving a certificate to determine their readiness for homeownership;
- homeowner educators and counsellors must be tested for core competency; and
- materials and curricula must be easily understood and available in multiple languages.

Members of the Certification Committee who were interviewed for this report noted that the process was far more rancorous than the curriculum development process. The major issue of debate involved who would be certified to provide HEC. A rift arose between representatives of for-profit groups and non-profit representatives regarding the moral hazard problem of allowing realtors or lenders to provide HEC. The non-profits, as well as several representatives of for-profits, considered conflict of interest to be too large an obstacle for realtors to provide quality training. Other Committee members thought that as long as realtors and lenders adhered to suggested ethical standards and practiced full disclosure, they should be allowed to offer counselling and education services[16].

The issue is not so clear-cut, as it might seem. Many non-profits are developers, builders, and lenders. Many underwrite both first and second mortgages. These non-profits will also face a conflict of interest when providing counselling and education. This was pointed out by representatives of lenders and realtors and led ultimately to the "open" certification standards that allow all those who pass the certification screening to provide HEC.

Residual tension between the non-profits persists and it colors respondents' accounts of their experience with AHECI so far. Many of the respondents expressed worries that committee results were generated too slowly. They felt that both the curriculum and certification standards were weakened in the political process of the committees. Several respondents worried that AHECI would run out of money before it accomplished anything. They worried that many of the organizations that provided the seed money to initiate the institute would not continue funding the effort.

It is noteworthy that AHECI advocates face-to-face education and counselling. This is consistent with the views of all but one of the industry experts interviewed for this report. It remains a mystery why tele-HEC is the fastest growing area of the HEC industry in spite of its lack of support and the widespread view that it is ineffective. Experiments with interactive high-technology (tele-conferencing, internet-based courses) HEC have also received poor reviews from those using it. It remains to be seen whether technological advancements will improve the quality of these exercises. The following statement from a key informant summarizes the views of most industry experts regarding tele-HEC:

> *"Any counselling or education that is not face-to-face is a waste of time. I don't care how many homeowners Countrywide or "Magic" (MGIC) produce—they won't stay homeowners for long if the economy goes bad. We experimented with tele-conferencing and web-conferences, but I didn't like the results of that either. There's no substituting for face-to-face."*

AHECI's Research Committee recommendations

The Research Committee recommended three major research initiatives to be undertaken by AHECI. The first undertaking is a pilot test of the Core Curriculum. This began with a demonstration of the curriculum and counselling training to 36 practitioners in Stone Mountain Georgia in December 1998. It is being followed up with field testing of the Core Curriculum by HEC providers in 30 states. To date, the results of this research have not been released.

The second research initiative is the first comprehensive empirical study of the mortgage performance of households receiving HEC training. Consortium partners agreed to provide micro-level mortgage origination data and servicing records in order to compare the performance of their "affordable" portfolio with the conventional loan portfolio. The study was to be performed in a short time frame with early results to be ready by the end of 1999. AHECI circulated a request for proposals to conduct the study and hired Price-Waterhouse to do it. The budget is alleged to be around $2 million, but this figure was not confirmed by AHECI spokespeople. AHECI noted in November 1999 that the study was running well behind schedule. Results were expected in mid-December but the deadline passed with no announcements. Since November, AHECI has not commented on the study.

The third proposed study was a cost-benefit analysis of HEC training. This was to be a precursor for the efforts of the financing committee to reduce the costs of providing HEC training. Part of the study involved a survey of HEC providers to determine the sources of funding, agency expenses, and the feeling of providers and clientele regarding charging fees for HEC services. The goal of the study is to begin to develop means for HEC agencies to become self-financing. The study was begun in 1998; results were to be released in mid-1999 but have not as yet been distributed[17].

Chapter summary

In this chapter, a picture of the current state of the U.S. HEC industry is offered. The contemporary HEC industry is dominated by providers of pre-purchase homeownership education. These providers have adopted a fairly standardized curriculum and typically offer training in one of two settings: classrooms of 15-30 students meeting for an average of 8-9 hours over the course of 1-3 days; or in a self-paced curriculum delivered through the mail and supported over the telephone (tele-HEC). Although the providers of face-to-face classroom methods vastly outnumber the providers of tele-HEC, the volume of clients served by tele-HEC agencies are many multiples of the volume served by even the largest classroom-based agency.

Industry experts and umbrella organizations hold a dim view of tele-HEC. Tele-HEC does not satisfy the criteria for HUD certification, the FHA does not accept it to qualify households for its first-time homebuyer mortgage insurance discounts, AHECI does not accept tele-HEC in its suggested certification standards, and no other umbrella agency supports its use. However, Fannie Mae and Freddie Mac agreed to accept tele-HEC to satisfy the counselling requirements for their affordable mortgages and this has opened the door for originators who wish to trim costs while underwriting the affordable mortgages to be resold to the GSEs. Providers of tele-HEC admit that their services are generally *pro forma*. A large majority of the households educated using tele-HEC methods have already signed purchase and sales agreements before getting trained. Tele-HEC agencies now represent a significant and growing share of the counselling industry.

Several current trends can be identified in this picture of the industry. A growing share of HEC providers charges their clients a small fee for their services. These fees range from $20-145 and are usually considered more a show of good faith by customers than a moneymaking proposition. Agencies that recently adopted fees reported that their attrition rates had fallen after they began charging the fee.

HEC providers are already evolving away from solely providing pre-purchase education. Most providers of classroom-based HEC have begun to incorporate post-purchase default prevention, post-purchase education, and other support services in their HEC programs. This trend has been led by the NeighborWorks Organizations' "full-cycle lending" program that was begun as part of their 1994 Campaign for Homeownership.

HEC programs working on Native American lands serve clients who face particularly daunting barriers to homeownership. These include extremely low incomes, extremely high housing costs, and almost unassailable institutional barriers. However, even in these circumstances HEC agencies have been able to make headway in eroding homeownership barriers and have succeeded in turning out new homeowners.

AHECI, the industry-led initiative to impose national curricular and certification standards has received mixed reviews in its first two years of operation. Although it has delivered on its goals of developing national certification and curricular standards, these are not without controversy. Industry experts, AHECI committee members and practitioners generally do not support AHECI's decision to certify realtors to provide HEC training. Industry experts, committee members and practitioners feel that AHECI's core curriculum is comprehensive rather than "core".

AHECI has not delivered on its research agenda which includes an in-depth micro-based study of the effectiveness of HEC at minimizing default risk and a country-wide study to determine an optimal fee structure. Most industry experts do not agree with AHECI's view that HEC can be self-financing. Many practitioners feel that AHECI has no value added. They feel that much of what AHECI proposes to do is already done by HUD or NeighborWorks and that AHECI will only impose another bureaucratic burden on overburdened agencies.

Chapter 4: The Importance of Homeownership Education and Counselling

Homeownership education and counselling has evolved into a pivotal element of numerous public and private programs designed to increase ownership rates for underserved populations. Many of the special mortgage instruments offered by private and the quasi-private Government Sponsored Enterprises (GSEs)—Fannie Mae, Freddie Mac—require successful completion of HEC for eligibility. Special discounts on mortgage insurance have been offered by the FHA (private mortgage insurers have considered offering discounts, as well, but none have put them in place as yet) for homebuyers who complete HUD-certified HEC programs. State and local governmental agencies and non-profit housing groups have collaborated with lenders to develop a wide variety of creative down payment and closing cost assistance programs ("soft" or "silent" second mortgages[18], down payment grants, remodeling and rehabilitation assistance) for households that complete HEC courses in order to facilitate lower- to moderate-income households access to homeownership.

The role of HEC in reducing the barriers to homeownership

Understanding the extent to which HEC programs minimize barriers, both real and perceived, that prevent their clients from purchasing homes is critical for developing successful programs and for understanding the role of HEC in a comprehensive lower-income homeownership policy. In the interviews, surveys, and focus groups that are noted as part of this study, respondents identified four main barriers to homeownership which fall into two main categories: financial and psychological/ educational barriers.

Financial barriers include:

1) credit problems—a poor or non-existent credit history; and
2) lack of availability or access to affordable decent housing because of income, asset, or price constraints.

Psychological/educational barriers include:

3) lack of knowledge and confidence regarding the home buying process; and
4) linguistic and/or cultural barriers.

Within each category, the specific nature of a barrier differed among areas of the country and population groups. HEC programs have developed many creative solutions to address the barriers that their clients face.

It must be kept in mind that the financial "barriers" to homeownership are artifacts of the underwriting standards imposed by lenders to protect their stake in the mortgage contract. Lenders are protected from default risk by:

1) ensuring that the collateral value of a home exceeds the principal outstanding balance owed on the home;
2) ensuring that borrowers have steady incomes that are sufficient to cover mortgage payments without consuming too large a portion of their budget; and
3) lending to borrowers who have an established record of fiscal responsibility based on a good credit record.

Underwriting standards that are adopted to protect lenders generate concomitant barriers and constraints on many households making homeownership difficult, if not impossible.

Because house prices can vary widely and change rapidly over time, lenders build in an equity cushion in the mortgage contract by requiring a down payment. The loan-to-value ratio (LTV), e.g. the size of the loan divided by the value of the home, is directly related to default risk because the lower the LTV the lower the likelihood that the house price will fall below the amount of outstanding debt. Conventional mortgages usually require a down payment that is 20 per cent of the house price. Buyers without the necessary down payment can receive lower down payment mortgages that require the buyer to secure mortgage insurance to protect the lender from default risk. In either case, the underwriting standard can impose barriers to homeownership for families. Many families are asset constrained—they do not have sufficient savings to cover a large down payment on top of the other costs associated with mortgage closing. If they substitute mortgage insurance for a down payment it increases their monthly mortgage payment. This might impose an income constraint.

Lenders try to minimize “capacity risk,” e.g. the risk that a household’s income will be insufficient to cover their mortgage and regular payment of other bills, by lending only to those households with an established record of regular employment. Further, lenders will only qualify households for whom a mortgage payment is not an unreasonable burden. Typically, banks will underwrite loans for borrowers if their monthly housing costs (mortgage payment, interest, taxes and insurance) do not exceed 28 per cent of their income.

Larger mortgages require larger incomes. Potential homeowners who do not have sufficient incomes to reach the qualification guidelines are considered income constrained.

Finally, lenders protect themselves from default risk by lending to buyers who are familiar with the importance of timely repayment of debt. Credit reporting agencies provide information on borrowers’ credit histories. Recently, these reports have been summarized in a single number, called a credit score, which is based on empirical models used to predict repayment performance. Although credit scores cannot be used as a basis for denial of a mortgage, they can be used to identify credit blemishes that provide sufficient reason for denial.

Lenders who offer “affordable” mortgages relax income and asset constraints. This is accomplished by lowering interest rates and down payment requirements or by raising the payment to income ratios used to qualify borrowers. Some affordable products require as little as 3 per cent down payment and allow payment to income ratios that exceed 35 per cent. Of course, these loans will necessarily have higher default risk associated with them.

HEC training is thought to reduce these risks by helping borrowers to develop better fiscal habits—budgeting, planning, and saving to help alleviate unpredictable financial setbacks. Further, buyers who understand housing markets are more likely to buy housing that is of higher investment potential. This reduces the risk of default losses in the event that the house value falls below the amount of outstanding mortgage debt. HEC programs also help lenders to identify creditworthy households with no credit history since credit reports will only be available for individuals who have used credit in the past. HEC providers use alternative means to establish good credit histories for these clients.

How HEC addresses credit barriers

Credit problems are universally identified as the main financial obstacle to home buying. These problems usually involve marred or no credit, lack of familiarity with establishing credit, and lack of knowledge regarding credit instruments, especially mortgages. A majority (79 per cent) of the HEC programs contacted provides assistance in repairing credit or establishing good credit. (Programs that do not provide direct counselling for clients with serious credit problems refer clients to other agencies, most often Consumer Credit Counselling Services (CCCS). The main method used to repair credit is a step-by-step work-out scheme often accompanied by intermediation with lenders. HEC programs usually help clients by:

- providing clients with a credit report;
- helping clients to contact those reporting bad credit episodes to agree on a settlement plan;
- developing feasible budgets;
- institute the repayment and repair program; and
- establishing habits to promote fiscal discipline in the future.

Focus group respondents repeatedly indicated how budget journals and budgeting exercises helped them to develop better skills in managing household income.

HEC agencies also assist clients with no credit history to establish creditworthiness using "non-traditional" means. Agencies verify clients' fiscal discipline and responsibility by showing timely payment of regular bills, for example, rental payments or utility bills. Establishing credit using alternative means and gaining familiarity with banking services was an important feature of HEC for recent immigrant households. Many of these households have more than adequate incomes and savings to purchase homes but no established history of banking or credit.

How HEC addresses affordability barriers

Local conditions in housing and labor markets determine access to decent affordable housing for targeted populations. Local labor market conditions and the income potential of the clientele dictate what they can afford. Inadequate or unstable income is a major financial obstacle to home buying. Possibly the most meaningful intervention a HEC program can make in a client's life involves working with him/her to find and maintain better employment using the future purchase of a home as the ultimate goal. Although this requires a long-term commitment on the part of both the participant and the program, the rewards are great. Two respondents in the Seattle focus group reported that they entered the program with inadequate income. Once they were provided an income target sufficient to purchase a home through counselling they went about finding and keeping jobs that paid adequate salaries. One motivation for keeping the jobs or maintaining high job performance was the goal of homeownership and the hope provided through HEC. The home buying process lasted for more than three years for both of these women and they both described it as 'life-changing.'

Local housing market characteristics dictate the availability of decent, affordable housing. Market conditions differ dramatically from place to place and are the single largest determinant of the variability between HEC programs. One cannot overemphasize the importance of fine-tuning HEC programs to address local conditions. Program success requires an intimate knowledge of both the population served and the local markets. The success of HEC agencies in the U.S. is attributable in large part to their willingness to experiment with methods designed to address specific local housing market issues. Many HEC programs originated as adjuncts of local affordable housing efforts.

Important aspects of local housing markets that shape the efforts of HEC providers are:

- recent market dynamics (e.g. price movements, a growing or a stagnant market);
- the age and condition of the existing housing stock;
- the configuration of the existing housing stock; and
- building and development costs.

HEC efforts differ dramatically depending on whether an agency is operating in a growing or a stagnant market. In growing markets housing affordability is governed by house prices, while in stagnant markets affordability is more often dictated by household incomes. Similarly, growing markets are often faced with housing shortages, particularly in affordable price ranges. Stagnant markets have plenty of vacant housing, but many affordable units are older and dilapidated. Further, households that purchase in stagnant markets face higher risks of collateral loss if the market fails to rebound. This adds to default risk for both lenders and borrowers.

HEC agencies tailor their efforts to local market conditions. In growing markets, agencies often build, rehabilitate, and develop new properties to address affordable housing shortages. For example, HomeSight in Seattle, the Massachusetts Affordable Housing Association (MAHA), and many NHS and ACORN agencies provide HEC courses while they develop, rehabilitate, and produce housing in local markets. In stagnant markets like Hartford or New Britain, C.T., Springfield, M.A., or Syracuse, N.Y., agencies attempt more comprehensive neighbourhood development while marketing existing homes for rehabilitation. In declining areas, the promotion of homeownership is often a major plank of redevelopment strategies.

The configuration of the local housing stock is a particular concern in older industrial cities, especially in the Midwest and Northeast. Many of the declining areas of these cities suffer from "post-industrial blight." This is characterized by vacant and abandoned factories surrounded by older multi-family dwellings. The settlement pattern is usually very dense, because people who lived in the houses were accustomed to walking to work in the factories. HEC efforts in these areas are usually coupled with housing rehabilitation and demolition for density reduction. The high proportion of multi-family dwellings offers both opportunities and obstacles for the agencies and potential homeowners. Because the purchase of the building brings with it income-earning potential, homeowners might be able to qualify for the larger mortgages necessary to buy the buildings. However, a new homeowner also becomes a new landlord. To address this issue, HEC agencies working in areas with large proportions of multi-family dwellings usually include landlord training in their curriculum.

Rural markets, particularly on Native American and Native Alaskan lands, suffer from severe shortages of decent affordable housing. Much of the rural housing stock is older and not up to modern standards. This problem is compounded by extremely high production costs in remote areas and on native lands. Low population densities and hostile weather conditions can more than triple development costs. Most HEC programs operating in these areas are active in developing, rehabilitating, and maintaining affordable housing. Some of the deepest housing subsidies are used to promote homeownership in remote areas. Working within the constraints imposed by local markets often calls forth innovative responses to addressing barriers to homeownership. For example, the Rural Housing Service (formerly Farmer's Home) of the U.S. Department of Agriculture (USDA) has several programs designed to generate and upgrade affordable rural housing. Their Self-Help Rural Housing Program (Section 502) requires future homebuyers to invest significant "sweat equity" in the construction of their home. The program finances the development and construction of properties and deeply subsidizes house purchase for its program participants, who are required to devote at least 30 hours of labor per week for six months (or approximately 65 per cent of the total labor cost).

Local labor and housing market conditions are not independent. Stagnant housing markets often coincide with weak labor markets. As labor markets weaken and population flows out of local areas, housing markets stagnate. In the U.S., these conditions are most prominent in many older medium or small industrial cities in the Northeast and Midwest. Weak labor and housing market conditions also plague many rural areas. The prominence of seasonal employment in rural areas adds another homeownership barrier, because of the irregular flow of income.

How HEC addresses psychological and cultural barriers

Despite the availability of brochures and literature describing the homeownership process at a "high level" there are still widespread psychological barriers to ownership that are typically based on anxiety, and anxiety is often based on a lack of education regarding the home buying process. Many focus group respondents reported that they just did not think that homeownership was possible for them. Many were coerced into entering HEC programs by families and friends. Others entered programs because of the demonstration effect—e.g. the purchase of a home by an associate with whom they identify. Indeed, 82 per cent of the programs contacted for this study listed "word-of-mouth" as one of their most important outreach methods.

Many potential homebuyers do not understand the mortgage instruments well enough to determine whether their incomes are sufficient to qualify. Others fear that poor past credit performance permanently foreclosed opportunities to ever own a home. Focus group respondents reported that they hesitated from entering the home buying process because of their fear that they would be "ripped off" due to their lack of understanding of the paperwork and legal intricacies of the process. Some had bought or attempted to buy houses in the past and had very bad experiences with the process.

Respondents almost universally reported that a main positive aspect of homeownership education and counselling was its ability to reduce the fear factor by providing information and training, as well as emotional support, to prepare them for the process.

HEC providers also help to address the psychological barriers faced by many current homeowners who are considering changing their housing status or gaining access to housing equity. Most long-time homeowners are unfamiliar with new financial instruments like senior annuity (reverse) mortgages. Many new and older homeowners are easy prey for predatory lenders. Post-purchase education offered by HEC providers helps these households to recognize and avoid unfair lending practices.

How HEC addresses cultural and linguistic barriers

Cultural and linguistic barriers apply most often to immigrant groups and aboriginal groups. Cultural and institutional barriers often seem insurmountable. For example, a very large proportion of land on Indian reservations is held in trust for tribes by the federal government or held in trusts by the tribes themselves. Simple legal transfer of this property is impossible and land cannot be held as collateral for loans. Further, tribal law supercedes state and federal laws on tribal lands. In many cases, foreclosure for non-payment of mortgages requires the permission of tribal authorities. Lenders are often reluctant to lend in these areas, because of these legal and financial uncertainties. HEC agencies are able to suggest creative solutions to institutional problems—mediating the interests of buyers and sellers. In the case of title transfer, HEC agencies were able to persuade lenders to accept life leases on properties as collateral for loans. They also helped potential homebuyers learn the subtleties of home purchase.

Linguistic barriers prevent many recent immigrants from attempting to navigate the legal and financial maze associated with home purchase. Trained interpreters who are familiar with the home buying process are becoming more prominent in many HEC agencies. Agencies also conduct multilingual educational and counselling sessions. Although the language barrier can be addressed directly by translating mortgage forms and information into other languages, it does not address deeper cultural barriers revealed in linguistics. For example, translators working for the Home Ownership Center in Minneapolis noted that the Hmong language does not even contain a concept that is directly interpretable as home ownership. The cognitive gap faced by households that hail from cultures with informal or collective ownership traditions is sometimes more difficult to overcome than language barriers. Furthermore, the financial practices of various immigrant groups may hinder their ability to qualify for a loan. For example, it is not unusual for clients from the Asian community to have down payments and incomes sufficient to qualify for home purchase, but with no credit history (or even banking history) because it is typical for many immigrants to operate on a cash basis only.

Several participants in the Minneapolis focus group were Asian immigrants. Three of them had tried to purchase homes on their own. They found the process of navigating the paperwork confusing and were daunted by their inability to communicate adequately with loan officers of banks and real estate agents. One striking aspect of the Asian community served by many HEC programs is the fact that most financial barriers were absent for their clients, it was cultural/linguistic barriers that constrained their ability to purchase homes.

Chapter summary

HEC expands homeownership opportunities for underserved populations in several ways. First, HEC helps potential owners to overcome informational barriers by instructing them regarding the home buying process. This is particularly important for households that face cultural and linguistic barriers to homeownership. Many of these households might never own merely because they are daunted by the complicated home purchase process.

Second, HEC addresses financial barriers, which prevent households from purchasing a home. These include income-related, asset-related, and credit-related barriers. HEC programs ground households in reality—and then establish pathways for households to change that reality. It teaches budgeting methods to help households to assemble down payments. It provides workout schemes for households trying to improve marred credit. It gives households income targets that they need to reach in order to purchase the house they want to own.

HEC programs often take a more active role in their local housing markets by providing affordable housing for its graduates. HEC programs often participate in purchase/rehabilitation/resale programs. Many provide financial and technical support to households to rehabilitate their own houses. Some HEC providers are also full-scale developers who produce new owner-occupied affordable housing from the ground up.

There is unanimous support among industry experts, HEC providers, and focus group participants that HEC agencies provide an invaluable service to the households served. Many HEC clients who became successful homeowners feel that they would never have owned without the assistance they received. Whether HEC training actually reduces the risk of default and foreclosure of these households is, as yet, an unanswered question.

Chapter 5: Findings of Statistical Studies, Research, Anecdotal Evidence

Although homeownership education and counselling has received almost unanimous support from stakeholders in the housing and housing finance communities, there is little hard evidence that HEC works to expand or stabilize homeownership. One reason for the dearth of good empirical evidence on the efficacy of the HEC industry is the high degree of diversity between programs. Until recently, the industry was fragmented among a large variety of HEC providers offering qualitatively and quantitatively different homeownership training. The unregulated evolution of the HEC industry, while promoting experimentation and creative approaches to expanding homeownership, made it difficult to evaluate its effectiveness.

Early studies of HEC

It should be noted that all of the early studies of HEC are plagued by methodological problems. In most cases the sample sizes were too small or they were selected in such a way that they cannot be considered representative of the country or the industry. Further, adequate controls were not in place to validate study results. As a result, most experts in the housing industry consider the studies to provide anecdotal information, at best.

Between 1980 and 1995, there are no published studies of HEC that showed up in a search of the literature, although some unpublished work was found. Fannie Mae hired an outside consultant to perform a comprehensive survey of existing counselling organizations. The report was prepared in 1994 (Shabecoff, 1994) but never published.

Study of the cost-effectiveness of foreclosure prevention

Moreno (1995) provides a comprehensive study of foreclosure prevention with a thorough enumeration of the costs of foreclosure to all stakeholders. Entities at seven different levels have a stake in the foreclosure process: homeowners; lenders; loan servicers; mortgage insurers; GSEs; the city, county or township; and, neighbourhoods (Moreno, 1995). Homeowners stand to lose any accumulated equity and all costs associated with the acquisition of the home. Second, they lose access to stable housing of decent quality. Damage to their credit rating makes it difficult for these households to buy, or even rent, other dwellings. Other dwellings of similar size are often more costly on a monthly basis than the foreclosed property. Moreno estimated that the average monthly housing payment for persons receiving foreclosure prevention counselling in two Minneapolis/St. Paul programs was $554. Average monthly rents for local apartments of comparable size exceeded $700. Third, foreclosed homeowners not only lose any tax advantages of homeownership, but also inherit a potential tax burden. Any forgiven indebtedness (the mortgage principal balance and any accrued interest) that results from foreclosure is treated as income by the IRS. Moreno estimates average family losses of $7,200 through foreclosure.

On insured loans, lenders lose non-reimbursable expenses such as interest payments advanced to investors or the expenses of holding and maintaining properties. On portfolio loans, lenders stand to lose the full amount associated with foreclosure—legal fees, maintenance and broker fees for resale, etc. Mortgage servicers lose the income stream from their servicing fees, with losses averaging five years at an estimated $225 per year by the Mortgage Bankers Association (1994). Moreno estimates losses of $1,500 (FHA) to $2,300 (conventional) on insured loans for lenders and $1,125 for servicers per foreclosure.

Mortgage insurers (FHA, VA and private mortgage insurers) lose the difference between the sale price of the foreclosed property and the sum of outstanding debt and all costs associated with resale (unpaid taxes, legal fees, holding costs, broker fees, etc.) up to their maximum guaranty. In 1997, HUD and the Veteran's Administration reported average foreclosure losses of $28,000 for FHA loans and $10,600 for VA loans; United Guaranty Corporation reported average losses of $17,300 on foreclosures of conventionally insured loans.

The GSEs (Fannie Mae, Freddie Mac, and Ginnie Mae) suffer losses on foreclosed properties with mortgages sold on the secondary market. Based on the scant evidence available from the GSEs, Moreno estimates their average losses between $6,400 and $8,000 per foreclosure.

Foreclosure losses that accrue to towns, cities, counties, and neighbourhoods are indirect and associated most often with foreclosures on FHA properties. Cities, counties, and school districts lose tax revenue from abandoned homes. Unrecovered rehabilitation expenses or demolition costs are borne by the locality to make a property marketable. Nearby properties suffer resale value losses, increased vandalism, and other social problems associated with building abandonment. Moreno (1995) estimates average city expenses of $27,000 and neighbourhood expenses of $10,000 for FHA foreclosures.

In sum, conservative estimates of total losses to all stakeholders average $73,300 for foreclosures on FHA-insured mortgages and $26,600 for foreclosures on conventional mortgages. Many affordable mortgage products offered by private lenders are held as portfolio loans. Foreclosures on these loans will be even more costly.

Foreclosure prevention costs averaged $3,300 per household for the family housing fund in Minneapolis/St. Paul. Of those counselled in their programs, 55 per cent remained current on their mortgages for more than two years after completing the program. Of the remaining households, 77 per cent were delinquent or had defaulted again. The rest of the households had sold their houses and moved. Accounting for the total program outlay, it cost $5,100 per successful foreclosure prevention. As Moreno points out, this is a bargain compared with the estimated losses to stakeholders suffered in a foreclosure.

Since 1995, several initiatives have been undertaken to understand the impact and efficacy of HEC. The renewed academic interest began with the Quercia and Wachter study, which was supported by Fannie Mae. The Quercia/Wachter report renewed HUD's interest in studying the effectiveness of counselling. To this end, HUD commissioned the Research Triangle Institute (RTI) study that was directed by George McCarthy. Although the results of this study were prepared in 1997, they were never published. Relevant portions of the 1997 study are presented in Appendix 3. A brief summary appears below.

1997 HUD/RTI study of the efficacy of homeownership counselling

The goals of the study were to develop and pretest survey materials to use in a larger study of the efficacy of counselling in promoting homeownership and minimizing default risk for households in underserved markets. In-depth case studies of four HEC programs were performed as part of the research. The case studies included focus groups conducted with HEC graduates in the four sites. Important insights were gained from the focus groups that help to illustrate the role of HEC in empowering them to become homeowners. The focus groups allow for a unique glimpse at HEC through the eyes and in the words of HEC graduates. Some of the key findings are discussed below.

Households' reasons for participating in the program

Although much is known about the methods used by HEC providers to reach their targeted clientele, it is not known which methods are most effective. Focus group participants were asked why they had approached the HEC program in the first place. The reasons for participating in HEC were (in order of importance):

- help with bad or lacking credit;
- referred by real estate agent, lender, friends or relatives;
- the step-by-step homebuying process provided by the program;
- down payment assistance or subsidy offered;
- type/location of homes offered through program; and
- lower mortgage payments and more house value for the money offered through the program.

Two direct quotes capture the reasons for participation:

> *"I was convinced we could never buy. I'd been poor for so long. We never had any decent credit. When we found out we had enough money to qualify and could get down payment assistance for closing costs, we got really excited and took the first appointment we could get."*
>
> *"When we came to the U.S. we had a lot of children, a family of 8, and it was very hard to find rental housing."*

Most useful aspects of the program to households

It is important to determine which aspects of HEC are viewed by recipients as valuable. When asked about the aspects of the program they found the most useful, people in all focus groups mentioned budgeting. Consistent with their comments about budgeting being one of the most useful course topics, participants across all four programs said that because of the program, they now had better knowledge and discipline about budgeting, saving, and prioritizing more generally. Specific quotes included:

> *"Now we don't buy food if my bills aren't paid. We eat at Mama's."*
>
> *"I was the bad credit queen. Now I'm a credit counsellor."*
>
> *"Counsellors made me aware of the splurge spending we did. We had to account for each dollar. Now we know from check to check exactly where it is going. They showed me how to save $50 per month."*

Other important program aspects identified in the focus groups were (in order of importance):

- moral support/encouragement/ nonjudgmental attitude;
- course books, worksheets;
- preview of contract/purchase agreement, other legal documents;
- program's advocacy, clout, intermediary role with lenders ;
- home inspection/maintenance information; and
- credit counselling and preparation for dealing with banks.

HEC's impact on facilitating access to homeownership

To elicit responses regarding the perceived effectiveness of HEC, the moderator asked: "Would you have been able to buy a home (or keep your home) without going through this program?" Each participant was polled individually to get as complete a picture as possible. Fifty-nine per cent (26 of 44 people) indicated that the program made homeownership possible for them. They said they could not have bought or kept their home without the program. Although the remaining people said that they probably could have bought a home without the program, they felt that the program simplified and de-mystified the process, sped up the process, and got them into a better quality home. The participants also mentioned several impacts the program has had on others beyond themselves:

- revitalizes the target neighbourhood;
- provides example of homeownership for next generation;
- brings different economic groups together; and
- inspires others (friends and relatives) to pursue homeownership.

Several people mentioned that they came away from their program with an understanding of how credit works and can be fixed. Corroborating their direct responses to this question, the knowledge and attitudes demonstrated by the focus group participants throughout the discussions in all sites convinced the researchers that these programs can greatly educate and empower their participants. Many of the participants were confident and articulate when discussing their experiences and demonstrated an understanding of mortgage concepts.

HEC clients' endorsement of the HEC experience

When asked whether they would refer a friend to the program, across the board, nearly everyone in each of the four groups said they would recommend the program to a friend. Many had already recommended their program to friends and relatives. Many themselves had heard about the program they participated in through a friend or relative.

Respondents were asked whether clients should pay a fee for the course. They all agreed that the training was worth paying a fee, however they worried that they might not have known that before they enrolled in the program. In the discussions about whether HEC should be required of similar homebuyers, participants across all sites agreed unanimously that almost anyone could benefit from the courses and course workbooks. As one person said:

> *"Required is too strong a word, but they'd be an idiot not to do this."*

As a rule, individuals who participated in the focus group in each of the programs reported positive experiences with the training received. Many of the participants, who successfully bought homes after receiving HEC, indicated that they initially had serious doubts about whether they could ever be homeowners. Specific concerns they mentioned that illustrate their doubts about ever attaining homeownership included:

- suggestions from peers and own belief that it's impossible to own a home if you're poor or have bad credit;
- self-consciousness about lower-income or immigrant status and being put on the spot, patronized or pitied;
- fear of commitment to a long-term mortgage, especially in an uncertain job market;
- lack of information about the whole complex process;
- fear of feeling overwhelmed/confused by complex paperwork; and
- mistrust/fear of being taken advantage of by lenders, real estate agents, lawyers.

In many ways the focus groups confirm the notion that HEC motivates individuals to make important changes in their lives. While it remains to be seen whether learning how to budget translates into lower default risk for a household, it is encouraging that the intention of generating homeowners who are capable of monitoring and managing their funds is coming to fruition.

It is also encouraging that HEC graduates leave their programs confident that they can become successful homeowners. A consistent theme that emerges from the study is that most families that complete HEC training would not have become homeowners without the assistance provided.

Other recent research efforts

a) Mortgage Guaranty Insurance Corporation's 1997 Survey

In June 1997, Mortgage Guaranty Insurance Corporation (MGIC) published the results of its survey of 153 community-based organizations. Some noteworthy findings of the survey are:

- 88 per cent of organizations felt that education prior to the search for a home was key to assuring homebuyer preparedness;
- 82 per cent felt that credit counselling prior to the home search was key to assuring homebuyer preparedness; and
- 70 per cent felt that prequalification prior to the home search was key to assuring homebuyer preparedness.

It is ironic that MGIC is one of the nation's largest providers of tele-HEC. Most of the households seeking telephone-based education have already signed a purchase and sale agreement, which puts them well beyond the home search stage of the purchase process.

MGIC's survey results also found that the average cost of counselling and education services was $650 per prospective homebuyer. However, there was a wide range in average costs—from $100 per household to $3,200. Counselling-based programs reported the highest average costs, because of the labor-intensive and long duration one-on-one component[19].

As reflected in table 3 (below) governments cover the largest cost share of pre-purchase education and post-purchase counselling programs—covering 35 per cent of the costs of the former and 37 per cent of costs of the latter. Lenders covered an additional 32 per cent of pre-purchase education costs. Private contributors paid an additional 24 per cent of post-purchase counselling costs. Borrowers cover 7 per cent of pre-purchase education costs and 9 per cent of post-purchase counselling costs. The HUD representative contacted for this (CMHC) study reported that HUD covered an average of 25 per cent of counselling and education costs—apparently the bulk of government contributions.

MGIC reports that only 10 per cent of the programs surveyed charged clients a fee for counselling and education services. This differs dramatically with the 48 per cent of agencies that charged a fee for counselling services in the CMHC survey. MGIC reports that the average homeownership

Table 3. Who Pays for HEC?

Source	Pre-purchase	Post-purchase
Governments (federal, state and local)	35%	37%
Lenders	32%	16%
Private non-lender contributions	15%	24%
Housing and community support agencies	11%	14%
Borrowers	7%	9%

Source: Tapping Our Nation's Homeownership Potential: A survey of community-based organizations, MGIC, 1997 education course includes 11 hours of classroom time. The average duration of homeownership counselling is 13 weeks.

The top five barriers to homeownership reported in the MGIC study were (in order):

- not having enough assets to cover down payment and closing costs;
- bad credit;
- not having enough information to get started buying a home;
- not having enough income to cover mortgage payments; and
- being able to find an affordable house.

With the exception of the proportion of organizations that charge fees for HEC services, the results of the MGIC survey correspond closely with the survey conducted for this study.

b) Freddie Mac's analysis of HEC and its affordable lending program

Freddie Mac published the results of the analysis of its Affordable Gold[20] lending portfolio (Stamper, 1997) in October 1997. The analysis was an attempt to account for serious delinquency rates that were three to six times higher for the Affordable Gold products than for conventional loans. A careful analysis of the performance of borrowers using the Affordable Gold product showed that the "layering" of risk accounted for the poorer repayment performance of these loans. Because the loans are underwritten using relaxed criteria—particularly low down payments, higher than average payment to income ratios, and relaxed credit standards—households purchasing loans using these products were exposed to collateral risk (the risk that their house price will fall below what is owed on the mortgage) and capacity risk (the risk that their incomes will fall below what is sufficient to cover routine payments). The analysis showed that the risk profile of the affordable products was significantly worse than the risk profile of conventional products.

Controlling for the risk profile, Freddie Mac showed that repayment performance of the affordable products was actually better than the performance predicted using models based on conventional loan repayment performance. This means that conventional borrowers would exhibit higher delinquency and defaults if exposed to the same risks as customers in the affordable markets. This might indicate that households who receive HEC training are able to budget well enough to sustain payments through crises that might lead households in conventional markets to default. However, the analysis could not identify the source of the better performance. It could only account for overall performance differences based on the layered risk profile of the affordable products.

c) Other research underway

Two ambitious initiatives were begun in 1999 that will provide valuable insights regarding the efficacy of HEC. The first initiative is sponsored by the Ford Foundation, which put up $50 million to help create a secondary market for "affordable" mortgages. The Self-Help Credit Union in Durham, N.C. was chosen to develop the secondary market infrastructure and securitize loans originated by a variety lenders across the U.S. The program expects to generate around $2 billion in mortgages or around 35,000 new homeowners in its first five years. As part of the program, the Ford Foundation hired an evaluation team from the Center for Community Capitalism at the University of North Carolina—Chapel Hill. The team plans to follow a large (around 2,500 households) random sample of homeowners for a seven-year period to account for their mortgage performance. One part of the study will include matching aspects of HEC received by the households to their mortgage performance.

In a similar program, the U.S. Congress approved disbursement of $30 million to fund the NeighborWorks HomeOwnership Pilot program. The goal of this program is to generate 10,000 new homeowners over the course of three years. HEC is a fundamental part of the NeighborWorks program—completion of HEC training with a NeighborWorks-approved program is required of all borrowers in the program. Further, part of the evaluation will be devoted to determining which aspects of HEC have the greatest influence on mortgage performance. A team from the Center for Urban and Regional Studies at the University of North Carolina was hired to evaluate the pilot. In this evaluation, a random sample of homebuyers will be followed for at least three years. Program aspects, including different aspects of the HEC training received by participants, will be used to analyze mortgage performance. Early results from the program evaluation are expected by the fall of 2000.

Members of NeighborWorks Training Institute performed an unpublished internal study to estimate the cost of training HEC trainers and the cost of providing HEC training at the agency level. NeighborWorks organizes six Training Institutes per year at various locations around the country. Around 210 trainers are trained (35 per class in six classes) per year. They estimate that it costs $800 to train a trainer in their five-day course. They noted, however, that it has taken at least three years to cover their curriculum development costs.

NeighborWorks reports that the costs of providing HEC training at the agency level depend critically on the volume of households trained per year. The standard (Fastrak) eight-hour training costs $150 per household for high volume providers (more than 30 households per month). Costs escalate quickly as volume decreases. NW estimates that it costs low-volume providers $400-$600 per household to provide training. Training costs mount for labor intensive one-on-one counselling programs. NW estimates that costs per household exceed $1,000 for participants in their HomeBuyers' Club—a long-term training and support program for those not ready to enter the Fastrak.

Other anecdotal information on the impact and efficiency of HEC programs

In response to this research projects survey, representatives of some of the largest industry stakeholders admitted that they had performed some early exploratory work of their portfolios to determine whether HEC had any influence on mortgage default risk, however, the results were mixed.

All of the representatives noted that they experienced a much higher than average delinquency rates for their affordable mortgagors that had received HEC training. On average, delinquency rates were double or triple those of conventional mortgages. On the other hand, a much larger proportion of the delinquencies "cured" before moving into default, which than normally is the case with conventional mortgages.

With regard to default risk, one respondent from a corporation with a very large number of loans reported that the default rate was significantly higher for the loans of borrowers that had received HEC training. This was after controlling for a variety of factors including demographic characteristics, debt-to-income, and payment-to-income ratios at origination. The respondent pointed out, however, that the analysis was probably plagued by sample selection bias. Because of this, the results of the analysis were never made public. It should be pointed out that the vast majority of the borrowers had received tele-HEC training.

Another survey respondent reported that the portfolio analysis performed by his company revealed no significant differences in the probabilities of default for HEC recipients and homeowners who received conventional mortgages. The analysis controlled for demographic characteristics, mortgage fundamentals, and whether the buyer had received HEC.

Finally, another large national organization reported significantly lower default risk for homebuyers who received HEC training. The analysis was performed on a large portfolio and controlled for the same factors as the analyses mentioned above.

It is important to consider why these anecdotal reports, albeit supported by empirical information, were never made public. The organizations themselves did not trust the results for at least three reasons. First, they felt that the analysis was methodologically flawed. Most of them suspected that they were not working with representative samples of HEC recipients. Second, the results were based on an unusual time period (e.g. the long economic expansion of the 1990s) from which it is dangerous to draw inference for other periods. Finally, although statistical differences in performance might have showed up, it is not clear that practical differences were revealed. With a large sample, a default rate of 1.04 per cent might be statistically different from 1.043 per cent, but it is not clear that these differences help explain the individual risk differentials of households. In particular, since the analyses are based almost solely on information at origination, they might not even capture the important contemporary determinants of default.

Most organizations contacted for the surveys reported "low" default rates for their HEC graduates (only 53 of the 79 organizations had any information on mortgage performance; few had complete information). The majority (28 of 53) reported default rates around 1 per cent (about the average for all mortgages in the U.S.). Of these, 15 of 28 reported default rates close to zero (below 0.3 per cent). The other 25 organizations estimated default rates in the 2 per cent to 5 per cent range, with one rural agency estimating default rates near 8 per cent.

Chapter summary

Three decades of activity by the HEC industry has produced a remarkably thin analytical literature. There are no rigorous studies that evaluate the claim that HEC reduces mortgage default risk. There are few studies of the cost effectiveness of HEC. What little is known suggests that HEC programs must satisfy secondary agendas to have survived as long as they have with no evidence that they work.

Chapter 6: Survey Results of Industry Experts' Opinion on HEC

Eighteen representatives of major industry stakeholders (GSEs, national lenders, representatives of national non-profit organizations, mortgage insurers, realtors, etc.) were interviewed as part of this study. One portion of the interview, which is presented above, probed their opinions of AHECI and other attempts to establish national curricular and certification standards. In a separate portion of the interview, representatives were asked to share their views on the evolution of HEC in the U.S., its current state, and their expectations for its future.

The evolution of the HEC industry

All respondents identified HUD's efforts at establishing demonstration housing counselling programs as the genesis of HEC in the U.S. Several representatives of national non-profit organizations identified individual contributions by their organizations as watershed events in further evolution. All respondents agreed that the stagnation of homeownership rates combined with the collapse of coastal housing markets during the 1980s led to a shift in the focus of HEC programs from mortgage default prevention to homeownership education.

When asked whether HEC evolved "organically" (bottom up) or "intentionally" (top down), respondents invariably answered "both." Two-thirds of the respondents felt that the HEC agencies would not have begun without the support of HUD. They also noted that the existence of HUD monies for housing counselling helped to "prime the pump," e.g. motivating local agencies to consider adopting HEC as one aspect of its overall strategy. The other one-third of the respondents noted that many HEC providers developed with little or no financial support from HUD. All respondents agreed that once housing counselling was established on the non-profit landscape, it flourished in an organic way. In other words, the evolution of the industry was not guided from above, but instead evolved with a high degree of local character and variation.

All respondents identified the rapid growth of tele-HEC as the most important development of the 1990s. All respondents agreed that this growth was fueled by Fannie Mae's decision to accept GE Capital's telephone-based homebuyer training to satisfy the counselling requirement for their affordable housing products. All but one respondent felt that tele-HEC was unlikely to reduce default risk for borrowers. Most felt it was *pro forma*, based on the fact that it was most often sought after the home was already chosen.

The future of HEC—the threat posed by credit scoring

Opinions were mixed regarding the future of HEC. Several respondents identified the widespread use of credit scoring as a big threat to the HEC industry. The value of HEC at identifying the credit-worthy households within the underserved populations will be supplanted by sophisticated prediction models. Their opinions are summarized in the words of one respondent:

> *"If you can accurately predict who will default and who won't, why will you need counselling? All you need to do is get the prices right."*

Other respondents were less sanguine about the value of credit scoring. Several respondents noted that credit scoring has only been used widely during the current long-lived economic expansion. Just as the true value of HEC cannot be measured until households are exposed to stress, behavioral models based on credit scoring will not predict default risk accurately because of the changing macroeconomic context.

One respondent predicted that widespread use of risk-based pricing and sub-prime lending would be a boon for the HEC industry:

> *"Think about it. If families can't afford houses now with liberal underwriting standards, how will they afford to pay for mortgages priced 2 or 3 points higher because of their risk profile? And if they do, who'll be picking up the pieces when they can't pay? Us [HEC providers], that's who. Anyway, you're forgetting that we want to expand homeownership. How are you going to expand homeownership by increasing mortgage prices? Nobody's talking about making mortgages cheaper using credit scoring. There will still be a big demand for organizations to market homeownership to lower/moderate income families and the underclass."*

All respondents noted the looming legal issues associated with credit scoring. Because the algorithm for computing credit scores is proprietary, and because credit-scoring agencies do not make individual credit scores available to borrowers, individuals are judged on criteria about which they have scant knowledge. Only general or vague information is offered to advise those wishing to improve their credit scores. Without knowledge about how credit scores are calculated, it is impossible to determine whether scores are assigned fairly by racial, gender, or ethnic groups. Disparate or arbitrary treatment of potential borrowers is likely to lead to class action. Respondents expected that legal challenges to the use of credit scoring for rationing credit will soon begin.

Another future development identified by respondents is the widespread use of automated underwriting to prequalify HEC clients. Almost all HEC providers have access to one of many desktop underwriting software packages (Fannie Mae's Desktop Underwriter, Freddie Mac's Loan Prospector, NHS' NeighborWorks' 2000). In the discussions with HEC providers, almost all of them claimed to have one of these software packages, but only one in three had begun using it. Fannie Mae has also distributed the Desktop Counsellor software that helps HEC providers to screen clients for the types of assistance they might need.

Standardizing the National Curriculum

Twelve respondents felt that HEC curriculum and other practices will be standardized in the future. They were divided regarding whether AHECI would achieve its goal of national curricular and certification standards. Several noted that curricular convergence has been happening already, mostly because of the widespread use of inexpensive educational materials distributed by Fannie Mae and other national organizations. Two respondents predicted that the HEC industry would divide into two different industries: "full-cycle" education, counselling, and community development organizations; and, large technology-based providers of homebuyer education, probably through video-conferencing.

Accounting for successful HEC initiatives

Respondents were asked to describe successful HEC initiatives and account for their success. In almost all cases, respondents described innovative local initiatives with which they were acquainted. In their account of the success of the programs described, respondents identified several critical components of success:

- an intimate knowledge of both the local housing market and the population served;
- adopting appropriate responses to local conditions;
- a successful marketing approach to reach its target clientele;
- the number and quality of partnerships with lenders, government agencies, and other sources of support for their clientele;
- a willingness to experiment with various programs and methods, e.g. more than one formula for success; and
- the ability to verify the success of the program through data collection and analysis.

a) Local knowledge

All respondents considered an intimate understanding of the local housing market and target population to be the most critical component of program success. As one respondent put it:

> *"A program can only succeed if it tailors its efforts to meet the needs of its clients within constraints imposed by local conditions. This might mean teaching classes in the right language, or it might mean finding creative ways to find subsidy money for its customers, or it might mean developing, building, and marketing affordable properties where none are available."*

Wide variations in local conditions and the different populations served by HEC agencies account in large part for the high variability between HEC programs, in the view of most respondents. However, three respondents noted a natural tension between the desire to standardize programs nationally and the need to allow local programs the latitude to custom-fit their efforts to address particular local issues. Several respondents pointed out that it is possible to standardize many aspects of the education portion of HEC, without compromising the ability of local providers to add components of their own. They pointed out that almost all educational approaches have common elements—e.g. understanding mortgages, determining the maximum mortgage for which a household will qualify, the closing process, etc. It is possible to require all educators to provide an agreed on minimum curriculum.

Respondents mentioned that most HEC agencies offer both education and counselling. It is often through the one-on-one counselling that agencies are able to address the specific problems of individual households. Two respondents also noted that a lot of the variation in local efforts has less to do with counselling and education approaches and more to do with other efforts in which local agencies engage.

> *"While the overall success of the program might hinge on its ability to combine educational and counselling efforts with affordable housing development or rehabilitation of the existing housing stock or development of creative mortgage instruments to allow lower-income households to purchase housing in expensive markets, it is still possible to require that specific curricular elements are included in the education component and that counsellors are adequately trained to do their jobs."*

One respondent, a representative of a national non-profit agency, pointed out that one must be careful when too much stress is placed on intimate local knowledge. He pointed out that although it is desirable for agencies to find local staff people, it is also important to have staff that is knowledgeable about housing and lower-income homeownership. He noted that:

> *"A trained housing person will be able to come up to speed on local housing conditions and issues in a pretty short time. It's probably harder to train local people about housing than it is to train housing people about local issues. Of course, it's still important to have access to the local communities, too."*

A critical component of local knowledge that was identified by respondents involves information on state, local, and national programs that support homeownership. One of the biggest services offered to households by local HEC providers is information regarding state, local, and federal programs. Most households approach HEC agencies with little knowledge or understanding of the numerous first-time or lower-to-moderate income homeownership programs available in their areas. HEC agencies often serve the dual function of informing their clients about the availability of support and screening clients for the supporting agencies. It is critical that HEC providers have complete knowledge of the available programs and programmatic guidelines.

b) Appropriate responses

Adopting appropriate and creative responses to the housing problems of local underserved markets is probably the biggest challenge faced by HEC agencies. As noted above, these efforts often go well beyond the scope of education and counselling efforts. Respondents noted that it is still necessary to tailor education and counselling efforts to other agency efforts. For example, in urban areas of the Northeast U.S. a large proportion of the affordable housing stock is old and dilapidated and/or multi-family dwellings. Two-, three-, and four-family units requiring significant rehabilitation dominate affordable markets in Boston, New Britain, or Hartford, and many smaller industrial cities. In order to purchase these homes, lower-income households must come up with large down payments and must be able to access funds to finance rehabilitation of the units. Further, once they purchase a dwelling, they will usually become both a homeowner and landlord simultaneously. Successful HEC agencies in these areas include landlord, rehabilitation, and maintenance training in their educational programs. They are familiar with programs such as HUD's section 203k rehabilitation loan programs and can help their clients navigate the daunting paperwork required for participation.

A respondent, who worked in rural areas where affordable housing is often in very short supply, noted that successful HEC agencies partner with Rural Development agencies and local builders to increase the affordable housing stock. Most rural agencies serve very low-income clientele who are often employed on a seasonal basis. Self-help housing programs allow home buyers to invest "sweat equity" in their homes by requiring households to commit a significant amount of time and labor in the construction of their home. The construction schedule is adjusted to coincide with the low employment season. HEC agencies in these locales often teach construction skills and stress financial planning and budgeting in their classes to help households to compensate for their irregular income patterns.

In remote rural areas and tribal lands, HEC agencies encounter multiple barriers to homeownership including: extreme shortages of decent affordable housing; extraordinarily high construction costs; low and/or seasonal household incomes; institutional barriers; and hostile climates. To further complicate matters, agencies' clientele are scattered far and wide. To respond to these exigencies, agencies have developed mobile educational facilities, partnered with agencies offering very deep subsidies, developed special contractual arrangements to overcome institutional barriers, and promoted strict adherence to high-quality building practices to compensate for the climate.

In another case, a representative of a HEC provider working in Alaska noted that they face a number of very different markets across the state. While urban markets in Anchorage might resemble other high price urban markets in the lower 48 states, markets on the Arctic Slope or in native Alaskan inland villages are unique. Construction costs for a modest two or three bedroom home (1,100 sq. feet) on the Arctic slope exceed $250,000. They require special building and heating techniques with high maintenance requirements. The HEC agencies working in these areas access several different state and federal programs to help subsidize up to half of the construction costs. These include programs that require strict compliance with energy-use guidelines, use of specific building materials, etc. The respondent noted that practitioners in Alaska must keep informed of changes in no fewer than twenty subsidy programs. Their education programs reflect their unique circumstances. Educational components stress maintenance, heating, ventilation, alternative plumbing and sewage disposal methods, and aspects of tribal law that are relevant to housing finance. While they bring the classes directly to their clientele, it is difficult to offer one-on-one counselling on a regular basis. This is often done over the Internet, or over CB radio, requiring that HEC providers assist local villages in establishing public access to these communication methods.

c) Marketing success

All successful HEC agencies use multiple methods to reach out to their targeted populations. Several respondents noted that HEC agencies perfect these methods over time. They noted the importance of experimenting with different methods, as well. Most successful HEC agencies rely on informal channels to attract their clientele. Respondents noted the importance of maintaining a "presence" in the local areas to maintain positive word-of-mouth advertising. It is here that partnerships and linkages play a big role as many HEC agencies rely on referrals from government agencies, lenders, and realtors to maintain a steady client pool.

Some respondents noted that agencies that target immigrant groups must be able to maintain direct contact with key members of ethnic communities. Linkages with churches, schools, and other neighbourhood organizations help agencies to foster relationships with local immigrant groups. To this end, it is also important to staff the agency with members of local ethnic groups who speak the language and to have educational materials translated into the languages spoken by the target population. Many HEC agencies offer classes taught in several languages.

d) Program administration and partnering

The quality of linkages plays a particularly important role for HEC agencies offering post-purchase programs. Respondents were well aware of the importance of early intervention to maintain and stabilize homeownership after purchase. HEC agencies that do not underwrite first or second mortgages must formalize an agreement with mortgage servicers to inform them of delinquencies early enough to respond effectively. This has become especially problematic with the development of secondary markets for affordable mortgages, because servicing is often sold separately from the mortgage, and both mortgages and servicing are resold multiple times. More often than not, the information that is transmitted with the sold mortgage or servicing agreement does not include a field identifying post-purchase counselling agencies. Lenders usually receive quarterly reports from servicers regarding the status of the loans. Delinquency durations can exceed three months when they first come to the attention of the lender. Recently, some HEC agencies have succeeded in establishing agreements with some lenders, servicers, and secondary markets to include counselling information on the mortgage and servicing records so that early warnings are possible.

e) More than one formula for success

Respondents noted the important role of local innovation in the evolution of the HEC industry. Coupled with the willingness to share stories of success and failure, local experiments are largely responsible for establishing the important elements of the emerging national curriculum. Further, respondents noted the facility with which HEC providers adapt methods used in other areas to address particular local problems.

f) Substantiating success

Respondents from national non-profit agencies stressed the importance of maintaining and updating client databases for the continued existence of HEC agencies. Although many who provide financial support of HEC agencies are willing to accept anecdotal information regarding program effectiveness, these respondents feel that future funding will be contingent on the agencies' ability to show results with strong empirical evidence. To address this issue, the NeighborWorks Network (part of the NRC) has developed a software package that makes data collection and updating much easier for local agencies. It also standardizes the NRC's national data collection effort. The NRC also stresses the importance of updating household information on a regular basis.

All respondents noted the critical importance of establishing the effectiveness of HEC empirically for the industry to prosper. Several respondents expressed disappointment that AHECI had not yet produced any meaningful research results. They noted that everyone in the industry was awaiting the results of the Price-Waterhouse study of the affect of HEC on repayment performance of borrowers.

Recent interest in HEC by industry leaders

Respondents noted that, first and foremost, industry leaders are interested in HEC because it opens lending opportunities in profitable markets. While the respondents note that the initial interest of regulated lenders might have been sparked by the CRA, all lenders are now competing to penetrate new mortgage markets.

> *"With homeownership rates at historic highs, there is a shortage of A+ borrowers. Lenders need to grow, especially so they won't get swallowed up in a merger. These guys need new markets, and they need somebody to sort them out."*

Eight of the respondents identified Norwest's or Bank of America's interest as a low-cost marketing strategy. They felt that large lenders and servicers were just tapping into an existing marketing infrastructure rather than develop one of their own. They noted that lenders have had difficulty penetrating "foreign" markets and they relied on local organizations to help make inroads in new markets. Two respondents noted that large lenders were employing other strategies to penetrate underserved markets, through their affiliated sub-prime lenders. They claimed that the largest sub-prime lenders (companies that lend to borrowers with marred credit for higher interest rates) like The Money Store were in fact owned and operated by large lenders. Through the sub-prime lenders, banks are able to assemble information regarding the behavior of borrowers in underserved markets.

All respondents agreed with the idea that HEC agencies perform "triage" on the underserved populations for lenders. According to this theory, HEC agencies are able to determine who among the underserved are: 1) already creditworthy but unable to qualify for a conventional mortgage. A good example of this type of household is an immigrant family with sufficient income and savings to qualify for a mortgage, but no credit history—or even no history of banking at all. These are excellent candidates for loans, but usually impeded by language or cultural barriers. 2) Able to become credit worthy through education and counselling. An example might be a household who needs to repair marred credit or budget to accumulate a down payment. 3) Households who are not good risks and should not become owners.

It is expensive and time-consuming for lenders to sort through the underserved populations themselves. They are not equipped to identify special cases from those that are rejected in their underwriting system. HEC agencies benefit lenders by reaching out to these populations, sorting them, and getting them "mortgage-ready."

Two respondents noted that as lending institutions become larger through mergers and acquisitions it behooves them to establish their own counselling departments. That way they can reach customers, train customers, and make sure the customers borrow from them. They noted that large lenders like Norwest, Bank of America, and Countrywide are now competing with non-profit HEC agencies for market share.

Initiating a successful national program

Respondents were intrigued by the prospect of developing a counselling industry on a national level. Six respondents noted the advantage of developing an industry using the U.S. experience as a model. The following points emerged from the interviews:

> *"It is important that it is not funded entirely from the top down. Everyone needs to have a stake in the success. Remember, HUD never funded more than 25 per cent of a counselling agency's costs. That motivated agencies to seek partnerships with lenders and local governments."*

> *"You have to make sure that local non-profits are the main providers. They don't have the conflict of interests that lenders and realtors have. Having demonstration programs is not a bad way to start. There are lots of groups in the U.S. who would probably be willing to set up programs in Canada."*

> *"You should start with a national curriculum—at least a baseline that others will follow. You don't even need to mandate it if you offer to distribute educational materials for free or real cheap. Who's going to turn down free materials?"*

> *"You need to make sure that you give a lot of latitude to individual providers. They'll be able to adapt to local conditions."*

> *"I would use a multi-stage approach. I would offer special mortgages for people who complete counselling, but only if they get the counselling first. I would provide financial support for the agencies providing the counselling, but only if they met minimum guidelines. I would try to get city or regional governments involved using block grants."*

> *"You need to remember that not all places will have organizations sprouting up to provide homeowner training. The government will have to be able to step in to provide the training. I would use the Farmer's Home [now known as Rural Development] as a model for the rural areas."*

> *"Whatever you do, don't let the realtors do it. They're already the place that most people get homeownership education. And we already see how that works."*

Other critical issues

Respondents were asked about the impact of attaching HEC requirements to affordable mortgages. Respondents all agreed that requiring completion of HEC training in order to qualify for affordable mortgages increased the chances that buyers would seek HEC at the wrong point in the home buying process. On the other hand, without the requirement, many households would never seek HEC. Respondents felt that getting HEC training after signing the purchase and sale agreement undermined many of the benefits associated with HEC. In particular, many subjects covered in the standard HEC curriculum would be unnecessary—e.g. selecting the right house, selecting a realtor, etc. If homeowners purchase the "wrong" house, their chances of having an unsuccessful homeownership experience increase.

Several respondents suggested that lenders require a certificate of HEC completion dated before the signing of the purchase and sales agreement. Two respondents suggested that completion of accredited HEC training should be required of all homeowners.

All but one of the respondents felt that HEC could not be delivered effectively over the telephone. Three of the four representatives of large tele-HEC programs felt that tele-HEC training would not diminish default risk. Almost all respondents worried that it is difficult to establish whether tele-HEC training is ever received. One respondent noted that anecdotal evidence existed to indicate that households were being provided quiz answers by disingenuous realtors. He noted that the GSEs might have recourse on these mortgages, should they go into default.

Chapter 7: Concluding Remarks

The HEC industry has a relatively long history in the U.S. It has expanded from just a handful of demonstration programs in the 1960s to several thousand providers of a wide array of education and counselling services integrated with lower income housing and community development programs. The importance of HEC in a comprehensive and aggressive expansion of homeownership opportunities for historically underserved populations has been embraced universally, and uncritically, by practitioners, policy-makers and industry stakeholders.

It is astounding to consider that not a single respondent in interviews or surveys could identify any solid evidence that HEC works. What is even more surprising is the willingness of industry stakeholders—who carefully consider the risks and benefits of any investment— to commit substantial funding to support HEC efforts. For example, Fannie Mae has contributed millions of dollars to support HEC initiatives.

When we asked respondents to resolve this contradiction they offered these observations:

1. The amount of money actually committed by industry stakeholders is quite minuscule compared with the amount of money that passes through the housing finance system. The bulk of the money comes from the public sector and even the $12-18 million spent by HUD is small relative to its budget.

2. It is important to remember that HEC serves at least two roles for industry stakeholders—marketing and risk mitigation. Industry stakeholders are searching for low cost ways to achieve either CRA compliance or to satisfy HUD-imposed lending mandates. The small amounts committed by industry stakeholders might represent a low cost marketing strategy.

3. Many industry experts consider the underserved population a combination of three broad groups: the creditworthy underserved who are ready to own; the marginally creditworthy who can be made ready to own; and, those who should never own. HEC agencies effectively perform "triage" on the underserved population by sorting it into these groups. Sorting is a time-consuming and costly process. However, if it is done well, lending to underserved populations can be profitable. To increase lending volumes, lenders must penetrate these new markets.

4. HEC done by non-profits is only a developmental stage for underserved lending. It sets the stage for sub-prime lending and risk-based pricing by compiling information on markets about which lenders knew very little. HEC efforts by non-profits will be displaced by the efforts of lenders and other for-profit entities.

It is important to remember that the main growth of the HEC industry in the U.S. coincided with an economic expansion of unprecedented duration. The majority of HEC agencies have been established since the end of the credit crunch of 1989-91.

These agencies have operated in a time of robust housing markets, low unemployment, and the increased efforts by lenders to reach underserved markets. Many housing industry experts believe that the efficacy of HEC as a risk-mitigating device has never been put to the test because of the recent unusual market conditions. Many worry that we will not know anything about HEC until we experience an economic downturn and see if HEC graduates are default-resistant.

Although there is a wide variation in the estimates of what it costs to provide HEC services, there is probably a wider variation in how HEC providers manage to cobble together financial support for their programs. While a significant portion of financial support of HEC comes from government sources, one of the biggest concerns faced by agencies is maintaining ongoing financial support. With the exception of the citywide program in Milwaukee (NOHIM), where lenders pay a $450 "bounty" to HEC providers for each affordable mortgage closed, there are few formal arrangements to compensate HEC providers for their services. AHECI has commissioned a study to find ways to make HEC self-financing. Hopefully, their results will point the way towards establishing more formal financial arrangements for HEC provision.

Although hopes are high, industry experts are concerned that AHECI will not deliver on its promise of establishing solid national certification standards, a national curriculum, and publishing pathbreaking analysis of the efficacy of HEC at promoting and sustaining homeownership for underserved communities. Some respondents noted that the industry is already moving towards curricular standardization, mainly because of the widespread use of the same educational materials. Respondents reported much rancor regarding the establishment of certification standards—mostly regarding who should be proving HEC training. AHECI is running behind schedule on its research agenda. It is not clear whether it will be able to sustain its own funding to continue its work.

Industry experts are optimistic regarding the prospects of establishing a national HEC industry through a continuing public-private partnership. They feel that there is much to learn from the US experience, which has generally been quite good.

Part 2: The Canadian Scene

Chapter 1: Introduction

This part of the report examines the services available in Canada to help households understand the homebuying process, to prepare them for homeownership and to help existing homeowners avoid problems that could jeopardize their ability to sustain ownership. The discussion reports on the results of a broad inquiry (i.e. refer to Appendix 1 for a list of Canadian organizations contacted for this study) that involved a literature and Internet search; a large-scale mail-out to public and private sector providers of housing, financial, educational, community and social services; and follow-up telephone interviews with selected organizations. Through this process, it was possible to develop a broad portrait of HEC and related support services provided by different types of organizations to different groups of households in Canada.

The next two Chapters set the context for the discussion. In Chapter 2, available indicators relating to the existence of information gaps and the need for HEC are examined. Chapter 3 shifts to the supply side, briefly considering the factors that may explain why Canada, unlike the U.S., did not implement a policy to promote HEC. The results of the inquiry into homeowner support services currently available in Canada are contained in Chapters 4 and 5.

The discussion distinguishes between services available in the general housing market to support mainly middle income households and the assistance that is being provided to low-income households participating in assisted housing programs. The former is considered in Chapter 4. Pre-purchase and post-purchase programs are examined separately, and, in each case, programs are further divided according to whether the provider is a for-profit firm, a non-profit organization, or government department or agency. In Chapter 5, there is a general discussion of the pre- and post-purchase services offered to low-income households by each of four different groups of providers: governments, Aboriginal organizations, community economic development organizations, and non-profit organizations sponsoring specific forms of assisted housing (self-build and cooperative housing). The overall conclusions of Part 2 with respect to the adequacy of the homeowner support services available in Canada are contained in Chapter 6.

Chapter 2: Context

Underlying government and industry support for HEC programs in the U.S. is evidence that knowledge and information gaps, along with related cultural and psychological barriers, are significant impediments to homeownership. Is there evidence that similar problems exist in Canada? Is the Canadian context also characterized by knowledge and information problems that discourage homebuying and that impair decision-making by existing homeowners?

One possible way to address this issue is to look at whether general housing measures provide an indication of poor or inadequate market information. If information problems are a barrier, some groups of the population would have ownership rates below what is indicated by their economic circumstances. If purchasers have made poorly informed decisions, this might be reflected in high rates of foreclosure, abnormally short periods of homeownership, or poor maintenance of the housing stock. These outcomes may also result because households are ill-prepared for homeownership, lacking the needed knowledge of budgeting and/or home maintenance.

It is very difficult, however, to isolate the influence of consumer information on housing outcomes. While Canada's overall ownership rate of 64% compares favourably with the U.S. and other countries, and the overall condition of dwellings in Canada is also reasonably good by international standards—with only 8% of dwellings needing major repairs in 1997—it's not possible to understand the significance of these numbers without conducting an empirical study which controlled for all the other factors besides housing information that could explain inter-country differences in ownership rates and dwelling conditions. This would be a very difficult exercise to undertake successfully.

Another way to assess the adequacy of existing housing information is to focus directly on the knowledge possessed by homebuyers and prospective homebuyers. Among the evidence of this type, there are some indicators pointing to the existence of significant information gaps and misperceptions among some groups of potential homebuyers:

- In a 1995 survey, a majority of renters overestimated or did not know the current interest rate[1]. A majority of renters also overestimated the minimum down payment required to buy a $100,000 home. Only 53% of renters were aware of CMHC's First Loan Home Insurance 5% down payment program. At the same time, lack of sufficient funds for a down payment was one of the main reasons renters cited for not planning to buy a house over the next two years.
- A 1997 study of immigrants households in Montreal found that the majority were not aware of homeownership assistance programs by CMHC or other agencies[2]. Most immigrants were found to have only a vague knowledge of the procedures to obtain a mortgage.

- In a 1995 survey of government and non-governmental organizations serving ethnic and racial minorities, almost two-thirds of the respondents were of the view that clients' needs for housing-related information were not being adequately met[3].
- A 1995 study sponsored by the Gignul Non-profit Housing Corporation found that a lack of information is one factor discouraging Aboriginal people in urban areas from participating in the housing market[4]. Participants in the study lacked information about the availability of community resources and the basic requirements of lenders, and they had experienced difficulty locating an Aboriginal resource person who could provide them with credible information.

In addition to concerns flagged by past studies, questions arise about the ability of existing information mechanisms to respond to new information needs that are emerging. Canadian housing markets and the information mechanisms that serve these markets are facing new demands as a result of a number of major social, economic and demographic developments, including: a growing and changing Immigrant population; changes in the make-up of Canadian families; an aging population; the demographic profile of Aboriginal peoples; and the changing nature of work.

A growing and changing Immigrant population

Between 1991 and 1996, Canada's Immigrant population increased by slightly more than three times the growth rate of its native population. At the time of the 1996 Census, immigrants represented 17.4 per cent of the population, the largest share in more than 50 years. Moreover, over half of recent immigrants come from Asia and the Middle East, a marked change from the period prior to 1980 when the U.S. and Europe accounted for the largest share of immigrants. The stresses associated with the influx of new immigrants are greatest in Toronto, which was the destination of 42 per cent of all immigrants arriving since 1991 and 21 per cent of all those arriving since 1981, and Vancouver, which was the destination of 19 per cent of all immigrants since 1981.

Changes in the make-up of Canadian families

The 1996 Census indicates that common-law and lone-parent families now make up over a quarter of all families in Canada, up from 20 per cent in 1986. Lone-parent families increased at four times the rate of husband-wife families between 1991 and 1996, and almost one in five children lived with a lone parent in 1996. Lone-parent families headed by females increased at an especially strong pace between 1991 and 1996.

An aging population

Between 1991 and 1996, the number of Canadians 65 and over increased at twice the growth of the population as a whole. It is projected that seniors, who accounted for only 8 per cent of the population in 1961, will comprise 16 per cent by 2016, and almost a quarter of the population by 2041.

The demographic profile of Aboriginal Peoples

The Aboriginal population is younger than the total population and increasing much more rapidly. As a result, the importance of Aboriginal people within the 20 to 45 age cohort, the group that accounts for the majority of new homeowners, is growing. While the lack of comparability between 1996 and earlier Census data on Aboriginal peoples prevents the estimation of population growth rates, it is significant that, in 1996, the average age of Aboriginal people (25.5 years) was about 10 years below that of the overall population (35.4 years). It is also significant that the Aboriginal birth rate, as indicated by the number of children under five for every woman of childbearing age, was 70 per cent above that of the total Canadian population.

The changing nature of work

Traditional jobs, in which paid employees work full-time in the workplace, are being replaced by new, more flexible work arrangements. A 1995 survey found that only about one-third of all workers were employed in traditional or "standard" jobs[5]. As a result of employers' efforts to reduce labour costs and workers' desire for lifestyle changes, we are witnessing a significant shift to a range of non-standard work arrangements. The 1995 survey found that the self-employed constitute about 10 per cent of the labour market. It also pointed to the growing importance of flexible hours, and temporary and part-time employment, and to the increasing tendency for employees to work at home.

Implications

These trends create a number of challenges. First, there is a need to ensure that information mechanisms can respond to the increasing size and importance of those groups that have the least knowledge of Canadian housing markets and that have tended to have particular difficulties accessing information resources—namely lower-to-moderate income households, immigrants and Aboriginal peoples. Moreover, in responding to the needs of immigrants, it is important to take account of relevant informational and cultural differences between Asians, who account for much of the current influx, and Europeans, who constituted the main immigration group prior to the 1980s.

Second, the growing importance of those groups with special housing needs must be taken into consideration. Information tailored to the needs of two-parent families may not necessarily address the particular concerns of lone-parent families. With retirees becoming an increasingly important component of the Canadian population, increased resources may need to be devoted to HEC programs that focus on acquainting existing homeowners with the options available to them. Older homeowners may need help understanding various housing alternatives (e.g. life-lease housing) and financial instruments (e.g. reverse mortgages) that have been introduced in recent years with a particular view to the needs of the elderly. As well as influencing the demand for content, demographic developments will affect information delivery. Lone-parent families, for example, are subject to pressures and time constraints that are likely to affect their receptiveness to different forms of homeownership education and counselling. HEC must meet the need of these households for a mechanism that will allow them to quickly sort through available information and assess its implications.

Third, the need for housing information more generally may have increased over time, due to the combination of an increasing complex marketplace and the more limited opportunities for discussion of household matters "around the family table". Earlier generations faced a much simpler housing market with far fewer housing and financing options. Moreover, children often acquired significant knowledge from their parents about various aspects of home purchase and maintenance. This type of learning is much rarer in modern families where both parents work and there are pressures to find the most productive use of the limited time parents and children have together.

Fourth, with lenders facing the need to respond to increasing numbers of new borrowers with different backgrounds and socio-economic characteristics, there is a potential for enhanced homeownership education and counselling initiatives to fill important information gaps and remove access barriers on the lending side. While there is a lack of solid evidence on the significance of such information gaps, previous CMHC studies have reported problems certain groups, including the self-employed and single women have experienced difficulty obtaining credit[6]. HEC programs could conceivably play a significant role in helping lenders better address financing needs and risk characteristics of Aboriginal peoples, immigrants, lone-parents, and of the self-employed and others in non-traditional work arrangements.

Chapter 3: Canada - U.S. Differences

In Canada, there has not been the same emphasis as in U.S. on addressing gaps with respect to knowledge and understanding in the housing market. Governments, non-profit and for-profit organizations in Canada have introduced a diverse range of homeownership education and counselling initiatives, as described in Chapters 4 and 5. For the most part, however, these are small, uncoordinated programs of limited scope and with limited objectives. There is no HEC industry in Canada and education and counselling are very much ancillary activities for most organizations that provide these services. HEC activities are supported only to the limited extent they can be seen to be justified on the basis of their perceived contribution to public and private sector organizations' main commercial, policy delivery, or social development objectives.

As discussed in the previous Chapter, a central factor in the development of the U.S. industry was the passage of legislation authorizing government policy and program support for homeownership education and counselling. It is only possible to speculate on why Canada has not followed a similar approach to the U.S., which began to sponsor and promote education and counselling in the late 1960s and early 1970s, but there have clearly been different forces shaping the policy agenda in the two countries.

The dismal inner city housing conditions and the urban unrest, which created the background for the passage of the Housing and Urban Development Act in 1968 and for HUD's entry into homeownership counselling, had no parallel in Canada. Universal health insurance, more generous unemployment insurance, and a variety of family support programs contributed to better housing and a higher quality of urban life than in the U.S.[7] While Canadian policy-makers had significant social issues to address in the early 1970s, including the widely recognized deficiencies of the large-scale public housing projects that had been established to assist low-income households, they had no reason to turn to the U.S. for policy guidance.

A second potentially important factor has been the greater importance attached to homeownership in the U.S. Owning a home has ranked among the most desirable aspects of the so-called "American dream". It is a value that is very much part of U.S. history and culture. Much more than in Canada, public dialogue, government policies and regulatory infrastructures have promoted homeownership as a preferred form of tenure. Within this political and cultural framework, a vehicle that can help expand homeownership has strong appeal.

Third, homeownership education and counselling has not had the same political attraction in Canada as in the U.S. where policy has been subject to the influence of a powerful private real estate lobby and an ideology strongly favouring market-based solutions to housing problems. Although much of Canada's housing policy has been directed to facilitating the effective operation of private markets, especially mortgage finance markets, there has traditionally been a greater recognition than in the U.S. of the limitations of private markets and a greater acceptance of the need for social housing programs to help those who could not afford decent accommodations. The different policy environment in the two countries was reflected in the very different responses to the calls, heard in both Canada and the U.S. in the early 1970s, for more effective low-income housing policies. While Canada placed major emphasis on the use of community-based and municipal non-profit organizations for the delivery of affordable, non-market housing, the U.S. relied on the private for-profit sector, employing a combination of subsidies and rent supports to encourage the provision of low-income housing[8]. The homeownership education and counselling programs that were initiated in the U.S. in the late 1960s and early 1970s fit comfortably within a policy framework that accorded overriding importance to the role of market forces. They were a less obvious option for country like Canada that was less constrained in supplementing or replacing the role of markets to address serious social problems.

Fourth, and in keeping with the U.S. reliance on for-profit providers to address social housing issues, there has been pressures on the U.S. mortgage industry to increase lending to underserved populations and in underserved areas. Homeownership education and counselling had a special role in the U.S. as one of the instruments that could be used to respond to these pressures. HEC could help institutions comply with the requirements of the Community Reinvestment Act , for example, which makes explicit the responsibility of federally insured depository institutions to help meet the mortgage and other credit needs of all community members in their chartered territories, including low and moderate-income households. Similarly, HEC supports the objectives of the 1992 Federal Housing Enterprises' Financial Safety and Soundness Act (FHEFSSA) in the U.S., which focuses on the responsibility of Fannie Mae and Freddie Mac to facilitate the financing of affordable housing for low and moderate income households and in traditionally underserved areas.

Fifth, a significant part of the support for homeownership education and counselling in the U.S. came from civil rights leaders and community activists concerned about the poor living conditions and low levels of homeownership of African Americans and other minorities. Homeownership counselling was seen as a way to encourage greater participation by minority groups in the U.S. housing market. For some proponents, counselling also had potential as a mechanism that could reduce perceived barriers minorities experienced in obtaining mortgage credit. While there have been concerns in Canada about the housing conditions of certain minority groups, most notably Aboriginal peoples, these have not given rise to comparable political pressures to expand homeownership opportunities.

As a consequence of these factors and the resulting lack of institutional and government policy support for education and counselling, there is no HEC infrastructure and there are no typical education and counselling programs in Canada. Hence, to get a sense of the HEC scene, it is necessary to review the activities of a broad range of disparate organizations—a very different exercise than in Part 1. The activities of those organizations providing support services for the general housing market are examined in the next Chapter, and homeownership education and counselling associated with assisted housing programs for low and moderate-income households are reviewed in Chapter 5.

Chapter 4: HEC and the General Housing Market

4a Pre-purchase education and counselling

For-profit firms, non-profit organizations, and governments (and their agencies) all offer some education and/or counselling services to prospective homeowners. Programs available from providers in each of these three major sectors of the economy are examined below.

(i) For-profit sector programs

Homebuilders

Homebuying seminars are one of the main vehicles through which homebuilders attempt to promote their services. While large builders occasionally provide seminars as part of their efforts to promote particular housing developments, the main HEC activities are undertaken by local branches of the Canadian Home Builders' Association. Each April, in conjunction with "New Homes Month", associations throughout the country offer first-time buyer seminars, which convey information to consumers while also raising public awareness about the Home Builders' Association and providing members an opportunity to showcase their products and services. The seminars are well publicized, with around 800 people attending the Greater Vancouver Associations' recent events, and over 1,000 attending the sessions organized by the Greater Toronto Association.

The seminars are directed to young families who may be in the market for a newly constructed home and generally includes information of particular relevance to the purchase of a new dwelling. The seminar held last spring by the Calgary Region Home Builders' Association, for example, included presentations covering the role of the land developer; issues to consider in the purchase of a lot; and the legal agreement between the purchaser and the builder. A fall seminar, being presented by the Greater Toronto Home Builders Association in conjunction with the Toronto Star, will include a discussion of the advantages of new homes, and how to choose a new home. These are typically accompanied by presentations that would be of interest to all new homebuyers. The Greater Vancouver Home Builders' Association, for example, hosted a two-hour seminar last April that included presentations by a CMHC representative, an official from the Bank of Montreal Mortgage Corporation, a local lawyer, a representative of the Homeowner Protection Office, and a manager of a real estate development sales and marketing company. The remarks and the subsequent discussion introduced participants to the concepts of high-ratio mortgages and mortgage insurance; acquainted them with some of alternative types of mortgages; and alerted them to additional costs that buyers must take into account, including legal fees, property transfer tax, GST, survey costs, and the property tax adjustment. For prospective purchasers of new homes, the seminar flagged questions that should be raised about the characteristics of the new housing development and the nature of the community they will be joining.

The Homebuilders' seminars, which tend to run about two hours, are intended to acquaint new buyers' with their options and to raise some of the key factors that must be considered by consumers, but they do not constitute a homeownership education program. A number of the topics that would be included in a basic homeownership education program are not covered in the seminars. Not much attention, for example, appears to be devoted to the decision-making process a family must go through to determine if homeownership is appropriate for them. There also seems to be little discussion of how to review and, if necessary, reform personal money management practices to prepare for homeownership. For the most part, the seminars are aimed at providing encouragement to those who have already gone through this preliminary readiness assessment on their own, and to demonstrate the particular advantages of purchasing a new home.

Financial institutions and real estate companies

Banks, credit unions, mortgage companies and real estate brokers offer some information and advice to the first-time homebuyer through their publications and information kits, their Web sites and their homebuyer seminars. Among the more significant published guides are "Mortgage Wise", issued by the Canadian Bankers Association (CBA); the CIBC Home Planning Kit: "Making Home Ownership Possible," a kit distributed by Bank of Montreal; and the real estate brokerage "Practical Guide" put out by Association des courtiers et agents immobliers du Québec (ACAIQ). These all provide information to help the consumer determine what is affordable, understand different types of mortgages, and calculate the initial funds required to complete a home purchase. The CBA and ACAIQ publications also provide useful discussions of the home search and purchase processes, with the ACAIQ guide clearly spelling out the duties and obligations of real estate brokers and agents.

Almost all financial institutions and real estate companies, along with their regional and national associations, make use of the Internet to publicize their activities and, in most cases, the Web sites contain significant information and advice for the new homebuyer. The Canadian Real Estate Association's site, for example contains a variety of pointers on identifying a family's housing needs, touring a home, making an offer, and choosing a mortgage. Consumers can connect to the Board's MLS site, find their desired property and obtain an estimate of their monthly mortgage payments. Most banks, credit unions and mortgage companies, along with a number of consolidated financial information services such as "The Mortgage Centre", "Cebra's Online Mortgage Explorer", "The Mortgage Store", "Mortgage for Less" and "Quicken.ca" provide detailed information on mortgage characteristics and payment schedules, along with a variety of other general information on buying a home. At Quicken.ca, for example, visitors can compare monthly costs of renting against homeownership, and go through a "checklist" that discusses factors to be considered before, during and after the house hunting process. It is now possible for consumers to fill out an on-line application, and obtain pre-approval for a mortgage at most institutions.

Homebuyer seminars are arranged at the local level, often being co-sponsored by neighbourhood real estate offices and bank branches. In the case of Royal Bank and Century 21, cooperation among local bank and real estate offices builds on a national agreement providing for Century 21 customers to obtain instant access to Royal Bank mortgage services. Banks and real estate companies have not established guidelines to govern how their local offices deliver homebuyer workshops and seminars. While there is considerable variation, the typical seminar runs one to two hours and includes presentations by a real estate agent, mortgage specialist, a home inspector and real estate lawyer. The sessions are generally aimed at removing the mystery from the homebuying process and eliminating the fears of first-time buyers. With a view to achieving this objective, one recent seminar focused on explaining the various steps a buyers must take, including: obtaining mortgage pre-approval; meeting with the real estate agent; choosing the right home; negotiating the offer; arranging a building inspection; and authorizing a lawyer to process the paperwork and complete the transaction.

A few real estate offices give special attention to providing information and support to new homeowners. The Real Estate Knowledge Centre, run by a Toronto branch of RE/MAX, for example, provides information on a wide range of topics through its brochures and 24 hour "knowledge hotline", and offers new homeowner seminars monthly in conjunction with Scotiabank. The three hour workshops go through the steps in the homebuying process, the application for mortgage financing and the role of the home inspector, and address a range of specific topics including: determining what is affordable; understanding the difference between a real estate buyer-agent and the more traditional vendor-agent; and learning how to pay off a mortgage within 10 years.

While private sector firms want to promote homebuying, they also have an interest in providing credible information that will allow seminar participants to understand the homebuying process and help them determine what they can realistically afford. In their brochures and distributions, real estate firms and mortgage companies frequently play up the importance of immediate action; households are encouraged to act now to take advantage of the current housing market. For the most part, however, seminar content is based on readily available and generally accepted information concerning such matters as affordability rules (i.e. gross debt service ratio and mortgage debt service ratios), mortgage options, closing costs, and home inspection.

Assessment

The seminars sponsored by homebuiders, financial institutions and real estate companies primarily focus on providing assistance and encouragement to new participants in the housing market. They are aimed at demystifying the homebuying process and removing uncertainties about institutional arrangements and eligibility for financing that may prevent some households from beginning a serious housing search.

These seminars do not have the basic attributes of educational programs, which include:

(i) a standard core curriculum that has been carefully planned and tested;
(ii) accredited instructors; and
(iii) the incorporation of procedures which allow students to test their ability to apply what they have learned.

There is limited opportunity in the workshops (especially the large sessions offered in major centres by homebuilders) to answer the specific question of participants. Moreover, in the one to three hour sessions offered by for-profit firms, it is only possible to cover a portion of the material that would be included in a comprehensive course—one based, for example, on the draft "Core Curriculum" issued by the American Homeowner Education & Counselling Institute[9]. From a survey of U.S. programs it conducted some years ago, Freddie Mac concluded that an effective homeownership education program covering the requisite material would likely consist of the equivalent of two full-day or four half-day seminars[10].

In addition, not all consumers have equal access to the information disseminated by for-profit firms: households in small centres have poorer access to new homebuyer information than households in major centres such as Toronto, where homeowner seminars are available every month; immigrants requiring information in their native tongue will have great difficulty finding a suitable workshop or a translated guide to the homebuying process; and the majority of non-connected households will have poorer access to new homeowner information than the 13 per cent of Canadian households that are (or were in 1997) connected to the Internet.

There is considerable scope to improve the homeownership seminars offered by for-profit firms. There would be gains from collaboration aimed at developing a standard curriculum and promoting use of the most effective delivery practices. For-profit providers, however, are helping to respond to the needs of those who simply require basic information about the homebuying process and who need assistance in determining what type of dwelling they can afford.

The information disseminated by for-profit providers is not adequate for those households that need significant preparation for homeownership. This includes households that have not considered ownership a viable option and that need to be guided through a thorough evaluation of the costs and benefits of owning relative to renting. It also includes those households who need to learn how to better manage their financial resources before they are in a position to become homeowners. Real estate companies and banks have not put in place pre-purchase mechanisms that can meet the needs of households that require one-on-one counselling, possibly over several sessions, before they are in a position to enter the market, or even to decide whether homeownership is appropriate.

(ii) Non-profit sector programs

A variety of non-profit organizations provide information on issues of potential interest to those considering the purchase of a home. For the most part, however, the programs are not directed specifically at prospective homeowners and don't attempt to address the range of factors that should be considered before making a house purchase. Moreover, information is mainly conveyed through group seminars and courses rather than one-on-one counselling.

The homeowner sessions that are occasionally included among the general interest courses provided by school boards and community colleges represent the closest thing, within the non-profit sector, to genuine pre-purchase education. Night courses are offered from time-to-time in various communities when demand exists and an instructor is available. Last year, for example, Lethbridge Community College offered three specific courses on homebuying: mortgages and budgeting for a home purchase; the legal aspects of a home purchase; and inspecting a home. These were each two to three hour courses, delivered over one evening at the campus or, as in the inspection course, through a tour of new and existing homes in the community, for a nominal fee ($9.99). This year, the Ottawa-Carleton District School Board is offering two homebuying courses; for a fee of $31 participants receive six hours of classroom instruction, spread over three nights, on the basics of mortgages, building inspections, the purchase agreement, the role of the lawyer, etc. Ottawa-Carleton residents can also register for half-day workshop on the basics of home inspection. Continuing education courses, however, are not widely enough available for them to be a reliable resource for new homeowners. It is significant that the Toronto District School Board, which has one of the largest continuing education programs in the country, doesn't include homeownership education among any of the almost 300 general interest night courses it is offering over the coming year.

Among the more broadly targetted programs that can be helpful to prospective homeowners are those in the area of financial management and budgeting. Many colleges and school boards offer money management instruction as part of their general interest courses. The Ottawa-Carleton District School Board, for example, is providing 12 hours of instruction to help individuals "take control of [their] finances", while the Toronto District School Board is offering a course on the basics of budgeting and credit-running for two and a half hours, one night a week over a period of nine weeks. Money management has also been a significant focus for a number of non-profit credit counselling organizations. The Credit Counselling Service of Toronto (which we discuss in the following section on post-purchase counselling), for example, is devoting significant effort to dispensing information on effective money management to schools, businesses and community groups. Over 1998, its staff delivered 206 presentations. Option consommateur, a Québec consumer rights group, provided a free two hour information session on budgeting and credit to 645 people in 1998. Its more intensive six hour money management course, for which there is a $30 charge, was delivered to 72 people.

Provincial Home Warranty Programs

The independent non-profit organizations established to administer provincial home warranty programs provide useful information for those in the market for a newly constructed home. Information packages often extend beyond the details of the provincial warranty plan to include various advice on buying from a builder. The Ontario New Home Warranty program, the non-profit corporation which administers the Ontario New Home Warranties Act, for example, produces a guide which rates the after-sales service track record of all builders registered with the Plan. The Alberta New Home Warranty program distributes a guide, *From purchase to possession & beyond*, which clearly sets out what is involved in various stages of negotiations for the purchase of a newly constructed home. The Professional

Home Builders Institute of Alberta is planning to deliver a course to new homebuyers based on this publication. It is expected that the course will be delivered monthly over two three hour evening sessions or on a Saturday and include discussion of construction contracts, building codes and standards, land development, building technology, new home maintenance the Alberta New Home Warranty program, mortgages and general insurance.

Ethnic service and immigrant aid organizations

Inquiries to organizations that serve members of specific racial and ethnic minorities and that assist immigrants belonging to these minorities did not lead to the identification of programs aimed at preparing individuals for the purchase of a home. These organizations do provide housing assistance to their clients, but this is almost entirely directed to tenants and those looking for rental accommodations.

Useful additional information is available from a 1995 report by Ekos Research Inc. which looked more generally at what non-governmental agencies are doing in the area of housing to assist ethnic and racial minorities[11]. About half of the ethnic service organizations and community service and immigrant aid organizations responding to the Ekos survey indicated they provide housing information. Respondents identified four main types of information they provide:

- information on vacancies;
- information on the rights and responsibilities of tenants and landlords;
- application forms for municipal, subsidized, and cooperative housing; and
- information on other services available in the community.

Significantly, a majority of the respondents to the Ekos survey thought their clients did not have sufficient access to housing-related information. While the identified information gaps mainly related to issues, such as the rights and responsibilities of tenants and landlords, that are of concern to tenants, they included some homeownership issues, including financing and mortgages, housing regulations, and assisted housing programs. The majority of organizations indicated that they needed more information to better serve their clients. Respondents emphasized the need for information to be presented clearly and simply, and in the language of their clients. They also thought housing information could be made more accessible; with improved communication channels between housing providers, housing agencies, and community organizations, it was felt clients could more easily learn where to find specific information.

Other

Non-profit organizations occasionally engage in education and counselling as sponsors or promoters of specific housing initiatives. An example of a non-profit with a specific project focus is the Hochelega-Maisonneuve Urban Development Collective. The organization, which has responsibility for coordinating and steering the revitalization of the Hochelega-Maisonneuve area of Montréal, utilizes homeownership counselling in the context of its efforts to attract new residents to this neighbourhood in transition. A central component of the sales-cum-counselling exercise is the use of computerized information programs to help the individual understand the financial implications of owning a home or condominium in Hochelaga-Maisonneuve, as opposed to continuing to rent. The sessions provide the individual with a full accounting of purchase and operating costs and prepare the individual to apply for mortgage financing. Participants are guided through a useful budgetary exercise, but they are not taken through the broad range of considerations that should influence their decisions as to, first, whether homeownership is appropriate, and, secondly, whether, ownership in Hochelaga-Maisonneuve is the best choice.

Assessment

There is no systematic, organized effort within the non-profit sector to provide homeownership education and counselling. The limited programs that are available serve a relatively small number of potential homeowners. Certain households benefit from the homeownership education courses occasionally offered by school boards and the information issued by non-profits administering provincial home warranty programs. Non-profit organizations, and especially credit counselling agencies, are active in promoting responsible personal money management practices. Although these services may help prepare some households for homeownership, they are not targetted to prospective homeowners. One of the most significant gaps is in the services available to ethnic and racial minorities. Many non-profit organizations serve these groups but these organizations do not have the specialized resources to offer effective homeownership counselling.

(iii) Government programs

Most provincial government offer some general information to new homeowners on their Web sites. Beyond this, homeowner assistance consists largely of information dissemination and counselling with respect to specific government programs for new homebuyers. In Ontario, for example, individuals can consult the Finance Ministry to learn about the provincial savings program (the Ontario Home Ownership Savings Plan) aimed at facilitating homeownership among individuals with a net income of less than $40,000 and couples with a net income of less than $80,000.

Households looking for general guidance on whether and how to purchase a home will receive limited help from most provincial Web sites. One of the more useful sites is maintained by the B.C. Ministry of Municipal Affairs and provides an electronic version of the government publication, *Buying A New Home: A Consumer's Protection Guide*, directed at the needs of B.C. homeowners who have purchased or are about to purchase a newly constructed dwelling. The guide looks at the steps individuals should take to investigate the quality of the home and discusses what can be done if problems are discovered after purchase. It also outlines the provisions of the Homeowner Protection Act which was introduced in 1998 and offers third party warranties to the buyers of new homes.

The Yukon Housing Corporation

The one instance that was found of a government housing corporation delivering seminars (in the general housing market) was in the Yukon. The Yukon Housing Corporation offers workshops for both new homebuyers and those interested in building their own home. Their self-build sessions run three hours a night over 15 nights and cover all aspects of homebuilding, including: land purchase, design, energy efficiency, developing a workplan, sub-contracting, and purchasing materials. The courses, which have an attendance of around 30 participants and are generally offered twice a year, have reportedly been well received. The estimated value of the sessions is around $400, but participants are not charged.

The seminar for new homebuyers runs over one or two nights and provides participants with basic technical, financial and legal information. All households that obtain mortgage financing from the Yukon Housing Corporation are required to attend the homebuyer seminar. Like the self-build workshops, the homebuyer seminar mainly serves the needs of middle income households. Where the Yukon housing Corporation lends funds to home purchasers, it does so at market rates; in providing mortgage financing it is simply attempting to meet a need that has arisen because of the reluctance of banks to finance homes in rural areas where there are not developed housing markets.

Federal Information Sources

On its Strategis Web site, Industry Canada's Office of Consumer Affairs provides information on the basics of buying a selling and home. The site includes general information on selecting a home, dealing with a realtor and making an offer. More detailed information is available on these and other topics from CMHC's Web site and its publications and software for homebuyers. The publication *Homebuying Step by Step*, which is available on a hard copy basis at any CMHC office throughout Canada as well as on the CMHC Web site, is a user friendly guide to help the consumer make his way from the assessment of his housing needs, through the calculation of what's affordable and the arranging of a mortgage, to the final closing of the housing purchase. The *AffordAbility*™ software marketed by CMHC allows consumers to analyse different home purchase scenarios, and see, for example, the implications of different down payments, different amortization periods and different renewal options. It should also be noted that CMHC recently issued a new publication entitled *The Newcomer's Guide to Housing in Canada* which is aimed at providing immigrants with a basic understanding of the operations of the homeownership and rental housing markets in Canada.

Other

In addition to the regular information programs they deliver, governments at all levels may become involved in education and counselling on an ad hoc basis as sponsors or promoters of specific housing initiatives. An example is the Meridian, a recently completed life lease housing project for seniors sponsored by the City of Nepean. Homeownership counselling in this case consisted of a series of meetings to acquaint potential purchasers with the concept of life lease, to assess whether there was adequate interest among area seniors and to obtain information on the specific features prospective occupants wanted included in the building. The city of Nepean brought in the consultants, Life Lease Associates of Canada, to conduct the seminars and fast-tracked the 66 unit project through the approval process.

Assessment

With a few exceptions—the most notable being the self-build and homebuyer courses offered by the Yukon Housing Corporation—governments support new homebuyers through the dissemination of information, rather than through seminars or courses. As well as assisting households directly, the information distributed by CMHC and provincial housing corporations provides a significant resource for firms and organizations offering homeownership seminars. While the content and dissemination of information adequately serves some consumers, it does not meet the needs of many households, including especially those families that need greater assistance in preparing for homeownership.

(iv) Conclusion

Real estate companies, financial institutions and homebuilders have been most active in providing homeownership pre-purchase education. Seminars offered by real estate offices, local bank branches and homebuilder associations across the country have helped households understand the homebuying process and the personal financial assessments they must complete to determine whether ownership is a realistic option. There is considerable variation, however, in program content and delivery quality. Even the more substantial sessions that may run three hours or more do not constitute a comprehensive homeownership education program. The seminars offered by for-profit firms through offices spread across the country are, however, helping to meet the needs of new entrants to the market who simply want basic information on the homebuying process and on the tests applied by lenders to assess mortgage applications.

Through the homebuyer education courses that are occasionally offered by local school boards as part of their continuing or general education programs, consumers may be able to obtain a more detailed understanding of key aspects of the homebuying process. With these programs, as well, however, there is great variability in coverage and in the quality of the material covered. Moreover, continuing education courses are not offered on a wide-enough and regular-enough basis for them to be a reliable resource for households that want to investigate becoming homeowners.

Governments have not devoted significant resources to homeowner education, but the information distributed in hard copy and electronically by CMHC, some provincial governments and by provincial agencies administering specific housing programs have provided a useful supplementary source for some households. Available data indicate that Internet usage in general by Canadians tends to be highly skewed, with the Internet being a much more important resource for households in the top income quartile and for households with university education (by the household head) than for others[12]. One might expect that these same more highly educated and well-to-do households are the primary beneficiaries of the electronic information on homeownership put out by governments and others.

Governments and for-profit firms are not addressing the needs of those who have special information requirements or face impediments to homebuying that can only be overcome through ongoing counselling. These include: new immigrants, whose search for information on the operation of Canadian housing markets is complicated by language and cultural barriers; Aboriginal peoples, who face special obstacles owing, in part, to the lack of a tradition of homeownership (an issue addressed in Chapter 5); households that have not considered ownership a viable option and that need to be guided through a thorough evaluation of the costs and benefits (including both financial and non-financial components) of owning relative to renting; and households who could become homeowners with proper preparation, including particularly education and counselling to improve their financial knowledge and budgeting skills.

Non-profit organizations offer some services for the latter group of potential homebuyers. The financial management and budgeting courses provided by consumer education and credit counselling organizations along with some school boards serve those who need more detailed information, including help in understanding how to develop financial management and budgeting strategies. These courses are not directed specifically at helping households prepare for homeownership, however, and they do not incorporate the one-on-one counselling that is needed in many circumstances to help families change their spending practices and apply strategies that will make homeownership feasible. Credit counselling agencies do provide budget counselling, extending in some cases over a long period (some of which is considered below in the discussion of post-purchase counselling), but these courses are also not oriented towards facilitating access to homeownership. Moreover, the clientele of credit counselling agencies consists largely of low-income households who have already experienced financial difficulty and who are some distance from being able to seriously contemplate a home purchase.

The importance of one-on-one counselling for those households that need preparation for homeownership was emphasized in a U.S. survey of providers of homeownership education[13]. Respondents to the survey believe that homeownership education is most effective when delivered face-to-face prior to the home search. U.S. homeownership educators believe that it helps, especially where difficult lifestyle changes are required, if a personal relationship has been established between the counsellor and the household. The lack of such counselling services represents a significant gap among the services available within Canada's general housing market to meet the needs of prospective homeowners.

4b Post-purchase counselling

There are a number of programs in Canada to assist households with budgeting and debt repayment. While these programs are not geared primarily to homeowners, they are used by households that need help in getting their finances in order and preventing foreclosure. In this respect, these programs resemble U.S. post-purchase counselling programs aimed at foreclosure prevention. With the exception of the information disseminated by CMHC and some of the provincial home warranty programs, no examples were found in the general housing market of the other type of post-purchase education and counselling described in Part 1, namely instruction in home maintenance, budgeting and other skills that promote sustainable homeownership[14].

Below, credit counselling and debt management services offered by government and non-profit organizations in Canada are briefly described. It is not clear to what extent these organizations are devoting their energies to assisting mortgage-strapped homeowners. A recent survey for Industry Canada suggests, however, that, where individuals enter into serious financial difficulties, housing costs tend to be a significant, but not a major cause[15]. In this study of personal bankruptcy, only about 5 per cent of the respondents identified mortgage costs as the factor triggering their financial problems. Only 8 per cent of the respondents sold their home to help resole their financial problems.

(i) Government programs

A number of provinces have debt assistance offices that offer counselling and will help individuals develop an appropriate debt repayment plan. In B.C., Alberta, Saskatchewan, Nova Scotia and P.E.I., the governments administer an Orderly Payment of Debts Program under Chapter X of the federal Bankruptcy and Insolvency Act. This program allows individuals up to three years to pay off their debts. The public administrator seeks the co-operation of creditors and then distributes the individual's payments to them according to the agreed schedule and based on an affordable interest rate.

In B.C., Saskatchewan, Nova Scotia and P.E.I., government administrators can help those with outstanding debts of less than $75,000 (not including their mortgage) make a Consumer Proposal, which is an alternative option under the Bankruptcy and Insolvency Act. The administrator helps the individual propose a repayment scheme that is within his means and that will satisfy the majority of creditors. All creditors are bound by the proposal if it is accepted by over half the eligible voters, representing two-thirds of the individual's outstanding debts, and, as long as individuals honour the agreed commitments, they cannot be sued or have their property seized by creditors. In Québec, the provincial government offers a similar service, commonly known as `Lacombe Law' (Dépôt Volontaire) through branches of its Justice Office.

In implementing these programs, government counsellors will have several meetings with clients and assist them in conducting an overall review including such aspects as: an analysis of money management, spending, shopping habits, and credit practices; an assessment of the various options available to address their financial problems; and the development of a rehabilitation plan through which they can satisfy creditors and avoid future financial difficulties. Other less formal and less-intensive counselling is also provided by all government debt assistance offices. Homeowners can turn to a provincial counsellor for help in developing a budget plan, for advice on how to adjust to a sudden change in their economic circumstances, or for information on how to deal with creditors. In B.C., for example, the Debtor Assistance Program, which is operated by a division within the Ministry of the Attorney General, employs 16 counsellors and serves about 7000 people a year. While the division is heavily involved in the administration of debt restructuring programs, the Director believes that one of its most important roles is to serve as a neutral information source which can provide debtors and creditors with a clear understanding of their rights.

(ii) Non-profit organizations

While post-purchase debt counselling is provided by both for-profit and non-profit organizations, the latter are of particular interest because of their active role in promoting wise money management. Non-profit credit counselling agencies tend to be involved in a broader variety of cases than for-profit Trustees in Bankruptcy that are likely to be approached when the main options are a Consumer Proposal and, failing that, an Assignment in Bankruptcy. Credit counselling is a minor activity for banks and other lending institutions, although these organizations offer financial advice to homeowners and they may provide important assistance by arranging a consolidation loan that will make a household's debt burden more manageable.

Credit counselling agencies exist in all parts of the countries, but there is a concentration in Ontario which is served by the 27 members of the Ontario Association of Credit Counselling Services. All agencies have a mix of short-term customers, who they may counsel over the phone or in one or two sessions, and longer-term clients that need ongoing assistance until they are on-course to achieving the objectives of a rehabilitation plan.

The Credit Counselling Service of Toronto (CCS), with seven offices and 26 full-time employees, is the country's largest non-profit credit counselling agency. In 1998, CCS served over 21,000 clients, responded to around 150,000 telephone queries, and administered over 3,500 debt management programs. The agency had received 60 per cent of its funding from the Ontario government until 1991, but it is now entirely dependent on contributions from clients and corporate sponsors - banks, retailers, trust companies, finance companies and credit unions. CCS counsellors all have a university degree and have completed the Bankruptcy and Insolvency course, the industry training program offered by Ryerson Institute.

In Québec, Option consommateurs, a Montréal-based consumer association, offers intensive credit counselling for those with debt problems. An initial two-hour session to review the individual's financial situation and options, is followed, if necessary, by regular sessions aimed at helping the client achieve the necessary changes in lifestyle. The agency undertook 170 budget consultations over 1997. The organization's clients are primarily low-income households, with 64 per cent of those counselled in 1997 having an annual income of less than $20,000. Clients' debt problems were primarily the result of student loans, credit card use and a drop in earnings. In only two per cent of the cases, was the purchase of a home the cause of the individual's financial problems.

(iii) Conclusion

Homeowners are likely to come in contact with existing post-purchase counselling programs only after they have begun to experience serious financial problems. The programs offered by for-profit trustees, government debt counsellors and non-profit credit counselling agencies are not aimed at providing households with ongoing advice on how to prevent financial and other problems that could jeopardize homeownership. Although some non-profit credit counselling agencies have attempted to play more of an educational role, their programs do not emphasize the financial issues associated with homeownership and available data suggest that only a very small percentage of their clients are homeowners.

Government and private sector programs that combine debt restructuring with periodic counselling based on client need have been quite successful in helping households resolve their problems and improve their financial practices. Homeowners are beneficiaries of these services, although mortgage-burdened households would appear to comprise only a minor proportion of the clients of debt counselling services. This type of crisis intervention, however, constitutes only a small part of the activities that are to be found in a comprehensive post-purchase counselling program that begins prior to the indication of financial problems and includes regular assistance with respect to budgeting, maintenance, repair and other matters relevant to sustaining homeownership.

Chapter 5: HEC and Assisted Housing

A variety of homeownership education and counselling programs are offered in connection with social and private non-profit housing programs. While some HEC programs are aimed primarily at identifying candidates and guiding them through the steps they must follow to obtain housing assistance, others involve some pre-purchase training in financial management and home maintenance along with post-purchase counselling and support. Assisted housing programs are directed mainly to low-income households who tend to have low levels of educational attainment and who are often without family and friends who can share some of the experiences of homeownership with them.

Below, there is an examination of four different types of homeownership education and counselling, each of which has a different sponsor and is associated with a different form of assisted housing: government-provided programs; programs offered by Aboriginal and First Nation communities; programs associated with community development initiatives; and programs linked to specific forms of non-profit housing development (namely self-build and co-operative housing). In each case, there is discussion of pre-purchase education and counselling or the mix of pre- and post-purchase HEC that is offered. The discussion attempts to shed light on the nature of the information gaps associated with assisted housing and the role of existing private and public sector HEC programs in filling these gaps.

Government programs

The main government counselling programs have been directed to helping residents of remote regions, primarily aboriginal peoples, take advantage of provincial programs to facilitate homeownership.

Alberta

The Alberta Department of Housing and Consumer Affairs offers limited pre-purchase and post-purchase counselling under programs to assist remote residents move from rented to owned accommodations. Grants for home construction are available under the Remote Housing Program to households that qualify on the basis of need, as determined by their communities. Alternatively, households may purchase manufactured units that have been made available under the Rural Emergency Housing Program, or they may take advantage of the province's disposal of surplus social housing units. A one to two hour workshop entitled "Homeownership - Is it For You?" is offered to help residents understand the responsibilities of homeownership and to decide whether they should move from tenant to homeowner. Following the purchase, one of the department's advisors visits the new homeowner and reviews what is required to properly maintain a home and to ensure home safety.

The pre-purchase seminar looks at specific criteria of the Alberta programs along with other more general issues, including the distinction between tenancy and ownership and household budgeting. Post-purchase counselling is accompanied by the distribution of pamphlets covering home maintenance and minor repairs, and safety precautions in the home. These programs are delivered by field officers in Alberta Housing and Consumer Affairs with experience in addressing the housing needs of Métis, who constitute the main client for the province's remote programs.

Saskatchewan

Saskatchewan Housing Corporation offers workshops and counselling in conjunction with its Remote Housing Program. Under this initiative, low- and moderate-income Northern residents can obtain a forgivable loan to cover 75 per cent of the costs of building their own home, up to a maximum of $50,000. Besides organizing meetings and workshops to introduce the program to residents of different northern communities, the government acts as general contractor on individual projects and counsels the site foreman on how to utilize the sweat equity contributed by homeowners. As part of this program, individuals may receive training in specific construction tasks. Saskatchewan Housing officials also counsel participants in the course of their annual inspections of properties with an outstanding provincial loan. Until the government loan is fully forgiven—which can be as long as 10 years—properties are inspected to ensure taxes are paid, adequate insurance coverage is provided and needed maintenance is carried out.

Northwest Territories

While the Northwest Territories Housing Corporation (NTHC) does not have a formal education and counselling program in place, staff instruct and advise clients applying for homeownership under NTHC programs and are available to informally help homeowners needing assistance. The Territories' main homeownership programs are the Expanded Down payment Assistance Program, which offers subsidies that can range up to 70 per cent of construction cost for low-income families in low-income communities; and the Independent Housing Program which provides repayable and/or forgivable loans to individuals with core housing needs that cannot be addressed through other programs. NTHC staff conduct public seminars and then meet individually with interested applicants. Program officers and building inspectors will elaborate on the financial and maintenance aspects of homeownership and help individuals complete the application process (which includes a detailed budget analysis) in three or four counselling sessions that run from one to three hours in length and generally extend over several months.

The NTHC has developed a *Homeownership Counselling Guide*, modelled on CMHC's *Rural and Native Housing Program Counselling Guide*. This is used as internal document to help Corporation staff identify the main factors they must bring to the attention of housing applicants and includes such topics as: determining affordability, getting a mortgage, constructing a house, preparing a contract, and insuring your home. After their purchase, homeowners may continue to call on NTHC staff for advice on financial matters or on home repair. As in the case of Alberta and Saskatchewan, programs are geared to the needs of a predominantly Aboriginal clientele (the main exception being in Yellowknife).

New Brunswick

Thorough the province's Home Orientation and Management program, New Brunswick Housing Corporation clients learn about subjects such as home maintenance, budgeting, food preparation and community services. The existing program, which is 10 years old, operates on a budget of approximately $100,000 and serves about 300 individuals annually. The program is delivered by the Corporation's regional offices, who will utilize the services of home economists, financial advisors, provincial maintenance staff and social workers as needed to deliver seminars that are responsive to local needs. A home economist is also on contract to provide individual counselling to Housing Corporation clients. While the existing program is primarily geared to social housing tenants, the Housing Corporation is in the process of developing new modules that will allow the program to reach those thinking about the possibility of homeownership along with prospective homeowners that need assistance in planning for financial and other commitments. It is expected that an expanded Home Orientation and Management Program will be available for delivery towards the end of 1999.

The Role of HEC

Officials that were interviewed in Alberta, Saskatchewan and the Northwest Territories were all of the view that counselling played a needed role in helping remote residents understand provincial assistance programs, as well as the implications of homeownership. In the Northwest Territories, the considerable time devoted to helping residents through the application process was cited as evidence of the significant need for one-on-one counselling. In New Brunswick, the recent decision to broaden homeownership education and counselling was the result of an internal review suggesting there is a need for programs that will support and encourage those tenants in the province that are on the fringe of the housing market.

Further evidence on the role of government information and counselling comes from a 1992 evaluation of CMHC's Rural and Native Housing programs (RNH)[16]. Under these programs, counselling on budgeting and home maintenance and repair was provided to largely the same remote, low-income population groups that are served by the Alberta, Saskatchewan and NWT programs. Among the relevant evidence in the RNH evaluation are the findings that:

- almost 57 per cent of lease-purchase occupants found the information and counselling they received to be very useful;
- the considerable effort devoted to pre-purchase counselling appeared to be effective in deterring lease-purchase clients from falling behind in their payments;
- almost half of RNH homeowners agreed that the pre- and post-purchase counselling they received was very useful; and
- CMHC and provincial staff connected with the program were largely of the opinion that counselling had been useful in reducing and preventing arrears and in increasing maintenance knowledge and practices.

HEC by Aboriginal and First Nation communities

Homeownership education and counselling is not a significant activity for either Aboriginal housing corporations in urban and rural areas or for First Nation community organizations.

Aboriginal housing corporations in urban and rural areas are mainly involved in managing rental housing stocks for CMHC or provincial housing corporations. In the past, rural housing corporations briefed households interested in the lease-to-purchase option under the Rural and Native Housing Program; this activity has ceased. The only ownership-related services housing corporations provide is by way of their ad hoc assistance to help departing tenants find alternatives to social housing. Although, as noted previously, the Gignul Housing Corporation explored the potential contribution of homeownership education and counselling, this did not lead to the development of an Aboriginal HEC program.

First Nation communities

In First Nation communities, the housing stock is generally owned and administered by the bands; private homeownership is still something new and it does not yet occur in the majority of communities. Indian and Northern Affairs Canada (INAC) provides funds for new housing and repair, and CMHC offers mortgage insurance with a guarantee by the Minister of INAC (amendments to the *National Housing Act* passed in June 1999 removed this requirement). In the last three to four years, there have been about 800 new Section 10 mortgages issued in First Nation communities. In a small number of communities, INAC funds are put into revolving loan funds which are used to finance the construction of new homes and, also, in some cases, major repairs. Some communities with loan funds provide part of the INAC funds as a once-in-a-lifetime grant to new homeowners. Loans from banks and credit unions may be used to supplement the financing available from the band (which is generally limited to a maximum construction cost of $60,000).

As there is no tradition of private ownership of land, and since the federal government has always provided money for construction and repair, First Nation communities are ill-prepared for private homeownership. In one recent attempt to address this problem, the Mohawk community of Kahnawake south of Montréal introduced a short-term homeowner education program. Some 20 to 25 homes are constructed each year in the Kahnawake community, with much of the financing being provided by a revolving loan fund the band has operated since 1977. Loans of $55,000 are provided to families that can meet down payment requirements ($5,000), and loans of up to $46,000 are made available without equity requirements. In 1998, the Mohawk Council imposed a requirement that all approved borrowers for new homes take a money management course. The course was delivered by two instructors from the Châteauguay school system for one hour per week over a six week period, with the Mohawk Council paying the total cost of around $2,500. The course concentrated on investment decisions rather than the practical budgeting and home maintenance advice needed by new homeowners and was not deemed to have met the information and training needs of clients[17]. A new education program, which is currently being tested in other (non-native) communities, may be adopted by the Kahnawake community.

More generally, and with support from CMHC and INAC, resources are being devoted to education and training programs aimed at promoting improved housing administration by First Nations. In many communities, rental housing is not being well managed and arrears are a serious problem. The main focus of current training initiatives is on establishing financially and technically sound administrative practices that over time could lead to a much-needed improvement in the quality of housing in First Nations communities. Two important suppliers of educational services are Ontario First Nation Technical Services Corporation and Turtle Island Associates:

- Mandated by the Chiefs of Ontario, and funded in part by them, the Ontario First Nation Technical Services Corporation provides technical training and advice to staff of First Nations and tribal councils for construction of homes and infrastructure (water, sanitation, roads). It helps First Nations develop programs and policies on land management and property disposition. The Corporation provides building inspectors to 28 unaffiliated bands, and trains inspectors for bands who have their own technical staff. Its activities also include the development of homeowner educational materials for distribution and use by First Nations.
- Turtle Island Associates is a consulting company that provides training in housing administration and client counselling to the housing staff of First Nations and to tribal councils throughout Canada. Over the past two years, working under contract for CMHC, the company has held 19 two-day workshops that were attended by over 300 housing managers and staff from more than 100 First Nations and some urban housing corporations. The workshops are directed primarily at the management of rental housing. Managers learn how to interact with clients through case studies and role playing. They are taught about issues such as interview methods, the development of client files, client risk assessment, and arrears management. While Turtle Island has adjusted their material to take account of feedback from workshop attendants, there has been no formal evaluation of the impact of these training sessions.

The Role of HEC

Aboriginal organizations outside of the reserves have not attempted to supplement the homeownership education and counselling programs that are offered by governments and private sector organizations. Rural and urban aboriginal housing corporations constitute a potentially useful infrastructure for delivering programs tailored specifically to the needs of Aboriginal peoples, but, as yet, there have been no efforts to pursue this option.

As in the U.S., First Nations communities raise more complex issues. Land cannot be privately appropriated on a reserve. While a number of communities give out certificates of possession, which are in the nature of a long-term lease, these are not always irrevocable and freely transferable.

In many First Nation Communities, there is only rental housing and issues related to the creation of defined property rights and the establishment of a housing market are not being addressed. The more immediate requirement in these communities is for training courses that will improve the quality of housing administration. It is in some larger communities in central Canada, where policies have been developed to clarify the rights of homeowners and where private ownership is being encouraged, that there may be a role for homeownership education and counselling. The experience of Kahnawake suggests that such communities could benefit not only from the various homeownership education and counselling resources currently available, including those developed by CMHC and provincial housing corporations, but, as well, from expanded content specifically tailored to addressing Aboriginal conditions and needs.

HEC as part of community development

In community-based development, the focus is on creating mechanisms and institutions that will allow members of disadvantaged neighbourhoods to work together to improve their economic and social well-being. Community development organizations engage in a broad range of activities that often include housing development, education and training, health care, childcare, and job creation. Homeownership education and counselling is of interest from a community-development perspective because it helps empower individuals and local organizations. Through homeownership counselling, individuals can obtain some of the life skills they need to manage their own affairs, overcome information and cultural gaps and address uncertainties/anxieties which exist pertaining to the homebuying process; and community members can acquire the knowledge they require to collectively manage a housing corporation or co-operative. HEC programs associated with two different types of community development are outlined below.

River Bank Development Corporation

River Bank is a non-profit economic development corporation that was started last year to serve the needs of the inner-city residents of Prince Albert, Saskatchewan. It is one of three community development corporations in the province. Quint, which was created five years ago to promote development in poor neighbourhoods of downtown Saskatoon, has now formed three co-operatives, each consisting of about 10 homes. Community Action Alliance Regina, the newest member of the group, is still in the process of forming a community group. Existing housing co-operatives have relied on the financial support the province offers to low-income households and additional assistance from municipalities. All three community development organizations receive core funding from the Saskatchewan government and have a broad mandate that includes skills training and job creation along with housing development.

River Bank has given particular attention to the training needed to equip community residents for homeownership. The inner-city of Prince Albert has a high degree of poverty. About 70 per cent of the residents are Aboriginal peoples and most have no experience with homeownership. Households require counselling on budgeting, home maintenance and repair, and on the issues associated with the operation of a unique form of housing co-operation. In the case of New Beginnings, a 19 member co-operative which River Bank inherited from its founders, counselling and training was initially provided by an Advisory Committee consisting of representatives of the community, the provincial and local government and the lender, the Prince Albert Credit Union[18]. Advisory Committee members organized town hall meetings to introduce the project and invite applications. They also lent their expertise to the separate committees formed by co-op members to address issues relating to policies and procedures, financing, renovations, and purchasing. Co-op members, who were expected to contribute sweat equity by helping with housing repairs and renovations, also benefited from the advice and technical assistance provided by staff and workers from Saskatchewan's New Careers Corporation.

River Bank's more recent venture, Hand-In-Hand, is a 10-unit housing co-operative for families with dependent children and annual income of less than $30,000. The down payment for the homes came from an equity injection of 25 per cent of the total cost from the Saskatchewan Housing Corporation and a further five per cent grant from the City of Prince Albert. In addition, each co-op member was asked to contribute 500 hours of sweat equity. Families are committed to remain members of the co-operative for an initial five year period, during which time the co-op holds the title and the mortgages on all the homes. As in the case of other co-operatives, members receive counselling and advice from an Advisory Committee that includes representatives with financial and construction experience. The River Bank Corporation has access to legal, financial and technical support that it can make available to members requiring assistance. Based on its previous experience, however, the Corporation saw the need for more intensive training. An eight week training program was put together to help members learn about home budgeting, home maintenance and renovation and to improve a range of other life skills. This full-time program was funded through federal and provincial training grants and drew on resources available from a local training institute, a bank, and the city planning department.

New Dawn Enterprises

New Dawn is a non-profit community development corporation that focuses on the creation of self-supporting local ventures within Nova Scotia. Its recent attempt to promote homeownership among low-income households and social assistance recipients in the province sheds additional light on the importance of homeownership education and training. The Pine Tree Park project involved the establishment of a mini-home park that would house 17 low-income residents who had been renting apartments in the area. With the savings achieved through bulk purchases of the homes, it was determined that the homes would be affordable by the main target group of under-or unemployed single mothers. New Dawn helped participants form an association and obtained the services of three community workers from the Provincial Department of Community Services to co-ordinate the project.

The education process began with an initial meeting outlining the project and continued as participants involved themselves in the work of the committees responsible for various tasks. Presentations were made to the association by CMHC, the Provincial Department of Consumer Affairs, New Dawn's property maintenance supervisor, mini-home manufacturer, an insurance company and the city planning department. The project also included a personal care worker certification course aimed at helping residents take advantage of employment opportunities near the Park. In its review of the experience, New Dawn notes the contribution the collective self-help approach made to developing personal and community skills, but it observes that more could have been done to prepare residents through pre-purchase counselling[19]. Special efforts need to be made to ensure that low-income households coming from rental accommodation understand the responsibilities that accompany ownership. Participants need to be guided through a careful budgeting process, and, in the case of social assistance recipients, this should involve a thorough examination of the scope and opportunities for supplementing their social benefits.

The Role of HEC

In the community-based model, homeownership counselling is part of a broader, more holistic effort to increase the human capital of low-income households. The experiences of River Bank and New Dawn highlight the strong links between investment in life skill development and job training and the achievement of sustainable homeownership. A serious effort to build self-sufficiency at the community level is likely to require a substantial commitment of resources to the education and training of each participant. River Bank has been able to lay the foundation for the development of self-sustaining communities partly because of its success in accessing federal and provincial training funds and applying these to its community-development objectives.

Other non-profit housing initiatives

Habitat for Humanity

Education and counselling is an important component of the activities of this non-profit housing organization which uses volunteer labour to provide affordable dwellings to low-income families. Each of the 38 established affiliates in Canada operates in accordance with Habitat's well-defined structure and operating procedures. Selected families must contribute to the building or rehabilitation of their own homes, and meet no-interest mortgage payments that are based on the cost of construction and the family's income. The major responsibility for education and counselling falls to the affiliate's Family Support committee. Committee members meet with selected families early on to ensure that they understand their responsibilities and maintain contact for many years after families have moved into their homes. Education classes are organized as needed to respond to the needs of new homeowners. A community member may be invited, for example, to talk about budgeting to a small group of families. In addition, members of the Family Support Committee make regular visits and serve as ongoing resource to new homeowners. While Habitat's focus extends to problems beyond homeownership, its support system helps to ensure that financial problems or home maintenance problems are identified and addressed.

Co-operative Housing

The co-operative housing movement has an active training program to provide those who participate in this distinctive non-equity form of housing with the knowledge and skills they need to set policy and make decisions. As a consequence, along with providing cost-effective shelter, co-ops are seen to offer benefits in terms of promoting skills development and personal growth[20]. The nearly 89,000 co-operative homes in Canada house more than 250,000 people, largely in the low-to-moderate income category, and account for almost 10 per cent of federally assisted dwellings. Regular training courses are offered by local housing federations, using instructors certified by the Co-operative Housing Federation of Canada (CHF). A significant proportion of members also participate in the training workshops offered at CHF's annual meetings. While co-operative members are not homeowners and co-operative education has a unique focus, the movement's training programs stands out as one of the more ambitious efforts at education and training within the Canadian housing industry.

A 1992 CMHC study found that the local federations and non-profit resource organizations providing training to the co-op sector tended to be small entities, with no more than three full-time professional and three full-time support staff. The CMHC's review covered a period of expansion in co-op housing. While the current environment is very different, with the sector experiencing virtually no growth outside of Québec and B.C. and only very modest growth in these two provinces, the findings of the review are, nonetheless, instructive. It was found that membership education and training was the one development service offered by all co-op housing federations and resource groups. These support organizations tended to stay involved with co-operatives for an extended period after initial planning and preparation; more than half indicated they continued to provide development services to co-ops over a year after the Interest Adjustment Date. Moreover, in the judgement of staff in CMHC branch offices, co-op resource groups were quite effective in education and training (along with other membership development activities).

At the current time, training is primarily directed to improving the skills of members of established co-ops. Using trainers who have completed the five-day course offered once a year by CHF and have satisfied their co-teaching requirements, local federations offer courses on a variety of subjects. These include: board of directors' responsibilities; inspection and maintenance; financial management including budgeting, arrears management and establishing an appropriate replacement reserve; membership development; community-building including promoting participation and accommodating diversity; and legal issues including details of the co-ops specific agreements and obligations. Courses run from an evening to a full day, with the greatest variety of offerings being provided by the larger local federations. Training is also a major focus of the activities at CHF annual meetings. Some 40 per cent of CHF members attend these meetings and participate in the mainly half-day workshops on board operations, organizing committees, finance, membership development, maintenance and other topics. At the 1999 annual meeting, members could chose from among 72 education workshops offered over two days.

The Role of HEC

While both Habitat for Humanity and the co-operative housing movement have well-developed training infrastructures, only Habitat has education and counselling programs that support homeownership. Within the co-operative movement, training is aimed at helping participants address the specific issues that are involved in building and operating a co-op. Habitat for Humanity provides instruction of the type offered in U.S. HEC programs on the financial and maintenance responsibilities of homeownership. Its specialized education and training programs, however, are also aimed at promoting the values of the movement. Both the co-operative movement and Habitat for Humanity address the needs of households that meet specific requirements and share certain values and their training programs offer little general guidance on the development of HEC.

Conclusion

Canada's experience with assisted housing provides some indication of the importance of homeownership education and counselling to low-income households. The financial assistance available to facilitate homeownership among low-income households, however, has always been relatively limited. As such, governments and non-profit organizations have only rarely responded to the need for education and counselling by those lower-to-moderate income households to whom they have provided homeownership financial assistance.

The few government homeowner education and counselling programs in existence focus mainly on the implementation of remote housing programs. Much of the counselling that occurs in the north is informal, and their success would appear to depend partly on the relationships that have been established between residents and particular government housing officials. The most significant homeownership education counselling programs have been implemented by a number of non-profit groups, notably Habitat for Humanity and the community economic development organizations in Saskatchewan. However, these are serving the needs of a very small number of households. They are resource-intensive initiatives that owe their existence, in one case (i.e. the community economic development organizations), to organizers' ability to tap into available federal and provincial government training funds and programs and, in the other case (i.e Habitat for Humanity), to the organization's success in attracting volunteer and donor support.

Among the lower-to-moderate income groups that would stand to benefit from well-developed HEC programs are Aboriginal households outside of the reserves. Rural and urban aboriginal housing corporations constitute a potentially useful infrastructure for delivering programs tailored to this increasingly important group of potential homeowners.

Chapter 6: Conclusion

While the need for homeownership education and counselling is difficult to assess, various indicators suggest that significant segments of the potential Canadian homebuying public are under-informed or misinformed. In addition, social and demographic trends are putting new strains on existing information sources, affecting their ability to adequately meet the information, content and delivery (i.e. "one-on-one" counselling) requirements of households. The recent period has been marked by an increase in the size and importance of those groups that have special housing information or program delivery needs, most notably immigrants and Aboriginal peoples. There has also been a growth in borrowers with risk characteristics that differ from traditional homebuyers—a group that includes single parents and the self-employed. Moreover, housing markets and financing arrangements have become more complex. Many older, well-established homeowners need help understanding new homeownership options and new financing instruments such as reverse mortgages. Challenges have increased, as well, for first-time homeowners, who are less likely than earlier generations to have received schooling about homeownership matters "around the family table".

While there is no reason to believe that Canada has less need for homeownership education and counselling than the U.S., there is no HEC industry in Canada. For a variety of reasons, including a different political environment in which policy-makers have felt less compelled to look for market-based solutions to housing problems, Canada did not follow the U.S. lead in promoting and supporting homeownership education in the late 1960s and early 1970s. In the absence of public sector and institutional support, what has emerged is a patchwork of programs that are mostly oriented towards information dissemination rather than education and counselling. The main support services for existing and prospective homeowners consist of:

- pre-purchase seminars run by for-profit firms aimed at demystifying the homebuying process and encouraging households to enter the market;
- workshops offered by non-profit organizations (including schools) that are occasionally directed at new homebuyers but that mainly focus on general budgeting and money management issues without particular attention to the problems and concerns of homebuyers or those preparing for homeownership;
- information on homeownership processes and programs, along with workbooks and decision-making guides for new homeowners, issued in hardcopy form and electronically by CMHC and provincial governments, and by financial institutions, homebuilders, real estate companies, and their various associations;
- debtor assistance programs operated by governments, for-profit and non-profit organizations that are not directed specifically towards homeowners but that may nonetheless serve as an important vehicle of post-purchase assistance for indebted households that need help negotiating with creditors and implementing a financial plan that will allow them to maintain their homes;

- a small number of government counselling programs linked to financial assistance programs to facilitate homeownership by low-income households (primarily in the north) and offering limited pre-ownership along, in some cases, with post-ownership counselling to program clientele; and
- pre-purchase and post-purchase education and counselling programs offered in conjunction with various non-profit housing initiatives targeted at helping low-income households and reflecting the priorities and values of the particular non-profit sponsor.

Information gaps that exist cannot be attributed to the lack of published and electronic resources available for new homeowners. Nor do they reflect the inadequacy of the information provided through the new homeowner seminars sponsored by for-profit firms. While there is considerable scope to expand their coverage and improve their effectiveness, homeowner seminars largely address the needs of households that simply require very basic information on the homebuying process and on the calculations that will help them determine what they can afford. The problems are rather that: (i) existing mechanisms of information dissemination are not reaching some consumers, or potential consumer; and (ii) some households require assistance that extends beyond information provision. The counselling services currently available in connection with the assisted housing programs operated by governments and non-profit organizations are reaching only a small segment of those households in need of more extensive assistance.

Among those who are poorly served by existing information mechanisms are households in smaller centres who are not accustomed to relying on published and/or electronic information sources and who have very limited access to homeowner seminars. While the Internet has greatly facilitated the dissemination of information to households in small and remote communities, data indicate that only a minority of households in the country are currently connected and that usage rates are especially low among lower-income and less-educated households. Existing information mechanisms are also not meeting the needs of minorities who require HEC information and services in languages other than English or French.

The second category of household that requires assistance beyond information provision includes Aboriginal households outside the reserve who face special obstacles due to the lack of a tradition of homeownership; and immigrants who require counselling to adapt to the different cultural conditions in Canada and related differences in homebuying and homeownership practices. Households that may be unfamiliar with homeownership and that are concerned about what is entailed in owning a home also may need personal counselling. Some of these families will need to be guided through a full evaluation of owning relative to renting before they can come to a decision as to whether homeownership is appropriate. Homeownership counselling is important, as well, for households that need to prepare for homeownership by improving their budgeting and financial management skills, along perhaps with other lifeskills - including those needed to properly operate and maintain a home.

The other group that may benefit from counselling consists of those with special financial needs and risk characteristics that need to build stronger links with mortgage lenders. Along with some of the groups mentioned above, this includes some female-headed households and families in which the primary earner works in a non-traditional job.

It is likely that current Canadian programs are not meeting the needs of households that could benefit from post-purchase counselling. Existing post-purchase counselling programs only serve some participants in government or non-profit-sponsored assisted housing programs, and homeowners who have already encountered financial difficulties and have been led to seek debt management assistance. For most homeowners, there is no ready access to the advice and support - prior to the "sword of Damocles" falling, which forces them to seek debt counselling - that may be needed to help them sustain homeownership.

Conclusion

There are major gaps in the services available in Canada to support prospective new homeowners and to assist existing homeowners who need instruction and counselling on the ways to make homeownership sustainable. In terms of new homeowners, the main focus has been on providing abbreviated general information about the homebuying process through seminars and through the distribution of hard copy and electronic information. Notwithstanding the ample supply of information, some households, including those facing language barriers, have experienced difficulties learning about and understanding the homebuying process. The more important problem, however, is that existing services do not address the needs of those households that require education and counselling to help them overcome significant financial, psychological and/or comprehension-type barriers to homeownership. As well, there are no programs in Canada specifically directed to helping existing homeowners who require ongoing financial counselling and support. Most of these gaps can be filled, at least in theory, by some form of enhanced homeownership education and counselling initiative.

The U.S. is an instructive model of a country with extensive homeownership education and counselling. Over the past three decades, HEC has grown into a large industry consisting of several thousand agencies offering a wide array of pre-purchase and post-purchase education and counselling programs. Although HUD support has been important in stimulating the development of the industry, about two-thirds of the costs of HEC programs are now covered by lenders and other non-government contributors. The industry has evolved into a diversified group of providers, the most progressive of whom are highly attuned to the characteristics of their local community and the needs of their target clientele.

Many homeownership support requirements that are not being met in Canada are being addressed in the U.S. Non-profit agencies provide pre-purchase counselling to help households overcome psychological and financial barriers to homeownership, offer post-purchase counselling to reduce the risk of default among existing homeowners, and deliver services tailored to those with special needs. Specific services are directed towards minorities and Aboriginal communities, two groups who face significant obstacles to homeownership in Canada as well as in the U.S.

HEC in the U.S. is still very much "a work in progress". During its three decades it has evolved from a few demonstration projects experimenting with ways to avert foreclosure for homeowners in default to a large group of providers of four identifiable housing services:

- pre-purchase education to assist households through the home buying process;
- pre-purchase counselling to help households overcome financial, credit, and other barriers to becoming homeowners;
- post-purchase education to instruct homeowners regarding home maintenance, protect homeowners from predatory lenders, and demystify new mortgage instruments like senior annuity mortgages; and
- post purchase counselling to help prevent foreclosure.

While HEC in the U.S. has been characterized by housing industry experts as "fragmented," it has developed a standardized pre-purchase educational curriculum that is used by virtually all educators. Although some industry experts hoped that the recent establishment of AHECI would have potentially important implications for the structure of the U.S. HEC industry and the nature of service delivery, AHECI's efforts might not be necessary given the natural evolution of the industry toward universal standards—a development that has been driven by "umbrella" agencies such as NeighborWorks.

Much attention has been paid to the putative, but unproven, impact of HEC at reducing default risk. Less attention has been paid to the role of HEC at penetrating new lending markets in which conventional lenders have no experience. It is possible that HEC programs help to minimize default risk by effectively sorting through populations that are underserved by the conventional mortgage industry. HEC programs market affordable mortgage products and at the same time fill informational gaps for the lenders.

The U.S. experience, including recent developments, allows one to identify the features of well-designed HEC initiatives. The lessons U.S. experience offers in this regard are reviewed below. There is also a discussion of a related issue; namely, the need for those planning HEC programs to take steps to help ensure that there is an adequate demand for their services.

Although many industry experts, program participants and stakeholders report favourably on the efficacy of HEC at increasing homeownership rates of underserved populations, empirical studies have not yet succeeded in confirming the effectiveness of U.S. programs in reducing the default risk associated with these efforts to increase homeownership opportunities. What is the appropriate direction for Canada to follow under these circumstances? What strategy should be adopted by those interested in improving access to homeownership and concerned about the inadequacies in Canada's homeownership support services? These questions are considered in this concluding discussion.

Designing an HEC program

Anecdotal evidence from the U.S. along with the views of U.S experts point to a number of characteristics of well-designed HEC programs. The U.S. experience suggests that more successful pre-purchase HEC initiatives are likely to include:

(1) A carefully planned education component

Most observers agree that HEC cannot be effectively delivered over the telephone. Classroom instruction is required based on an approved core curriculum and incorporating modules that address the specific local issues and concerns of the target population. In some circumstances, to meet the needs of specific population groups, it will be necessary to offer instruction in languages other than English and French and to include a discussion of cultural differences between Canada and other countries that may be a source of confusion[1]. While a basic course will require a minimum of eight hours of instruction, a comprehensive course designed along the lines of the AHECI draft curriculum is likely to involve at least 10 to 12 hours of classroom time.

HEC providers should attempt to influence household decision-making at an early point; they should aim at helping individual households determine whether homeownership is the right choice for them and at equipping potential homeowners with the knowledge they require before the home search begins. The course should be offered by certified instructors who have proven they can effectively convey the material. Program participants should be tested before receiving a certificate indicating their readiness for homeownership.

(2) A complementary component of one-on-one counselling

U.S. experts regard counselling as an important adjunct to classroom education. One-on-one interaction is often necessary where clients need help improving their budgeting and money management skills and repairing their credit history. By understanding their clients' particular circumstances and gaining their trust and confidence, counsellors can be more effective in motivating households to make the difficult lifestyle changes that may be necessary to prepare for homeownership. HEC counsellors should be certified and required to adhere to an industry code of ethics.

(3) The support of umbrella agencies

In the U.S., umbrella agencies fulfil an important support function for organizations that are delivering HEC. They develop the curriculum, produce and circulate educational materials, and train instructors. The Neighbourhood Reinvestment Corporation (NRC), for example, promotes the delivery of standardized courses by its local affiliates, Neighbourhood Housing Services (NHS) organizations. The NRC also obtains field data for research and assessment from NHS providers. As progress is achieved in implementing the goals of AHECI, these central functions could conceivably expand to include the accreditation of HEC providers, certification of trainers and counsellors and the enforcement of industry-wide codes of conduct.

While effective HEC programs must be tailored to local needs and circumstances, there is a core of basic information about the homebuying process that must be incorporated in all courses. Umbrella organizations help to ensure that all HEC providers satisfy certain basic standards in terms of course content and delivery. They also help providers to realize the economies from a centralized approach to the development of course materials and to the assessment of HEC, along with alternative modes of homeownership education and counselling.

(4) Links to organizations offering related services

Well-developed links to other organizations serve two functions. First, they help HEC providers reach households that could benefit from homeownership education and counselling. As part of their marketing strategy, HEC providers need to build ties to community organizations, immigrant aid services, housing agencies and other public and private organizations that offer services to their target population. Second, through such links, HEC providers will be better positioned to help households that require assistance beyond homeownership education and counselling. As part of their preparation for homeownership, for example, individuals may need to upgrade their work skills and improve their prospects for secure employment. To be effective, HEC providers need to be able to connect such clients to federal or provincial training programs or to work with community economic development organizations that may be able to initiate needed training programs. HEC agencies should also have links to private lenders and to public agencies administering programs to promote ownership among lower-to-moderate income households.

In the U.S., some HEC agencies undertake education and counselling as part of a comprehensive strategy to promote homeownership among undeserved communities. As part of their efforts to foster homeownership, some HEC agencies invest in the development of affordable housing, assist clients in meeting down payments and closing costs, and offer favourable mortgage financing. In tribal areas, some HEC organizations have expanded the scope of their activities to address a number of barriers to homeownership, including problems arising from the inalienability of lands on reserves. Although the traditional model of an HEC which focuses on homeownership education and counselling may be more appropriate in the Canadian context, at least initially, well-developed links with other organizations will enable HEC agencies to promote some of the broader changes needed to facilitate homeownership. HEC organizations are well positioned to act as catalysts for change by identifying regulatory and other external barriers to homeownership and bringing problems to the attention of those with the responsibility and resources to respond.

In addition to having put in place all the right program components, progressive HEC agencies are distinguished by their capacity for innovation and learning. They tend to experiment with a variety of formal and informal approaches to the marketing of their services. They are open to alternative methods of program delivery. There are processes in place within these organizations to assess program efficiency and effectiveness and to encourage an ongoing search for ways to improve performance.

Many of these same characteristics are found in progressive post-purchase counselling agencies. More successful post-purchase programs have well-qualified counsellors that are highly effective in building a rapport with their clients. Early intervention is important for effective post-purchase counselling and this requires that HEC agencies have well-developed links with lending institutions, mortgage service firms, government housing corporations and wide range of community groups and agencies. Recent efforts in the U.S. to combine pre- and post-purchase counselling into a package of "full-cycle" homeownership assistance deserve attention. For households that needed assistance overcoming financial barriers before they could qualify for a mortgage, post-purchase counselling can be a valuable ongoing source of financial advice and support. Full-cycle counselling allows post-purchase agencies to promote sustainable homeownership practices, rather than, as is often the case, simply focusing on strategies to assist households that are already in serious financial difficulty.

Creating a Market for HEC

The notion “if you build they will come” may not provide a reliable basis on which to invest in the creation of HEC. While there are groups in Canada who could benefit from homeownership education and counselling, there is no certainty that these unmet needs will translate into a demand for the services of HEC providers. The experience of the Nova Scotia Ministry of Housing and Municipal Affairs is instructive. Over the 1980s the Ministry delivered an extensive education program through its regional and district offices. The course, which covered various aspects of choosing, purchasing, building, insuring and maintaining a home and was directed at households with lower to moderate income, was discontinued in the early 1990s due to a lack of participation[2].

The demand for HEC is more assured where homeowners are required to complete an accredited course to qualify for a mortgage or to receive financial benefits. In the Yukon, for example, all homebuyers applying for mortgage financing from the Yukon Housing Corporation are required to take the Corporation’s homebuyer seminars. In the U.S., lower to moderate income households are attracted to HEC, in part, because the non-profit agencies are important sources of financial assistance. Many agencies help their clients by providing down payment and closing cost assistance and “soft” or “silent’ second mortgages. The incentive for new buyers to enrol in HEC has been further strengthened by the mortgage insurance discounts offered by the FHA - enabling homebuyers in central U.S. cities who graduate from HUD-approved HEC training programs to pay an upfront mortgage insurance premium as low as 1.25 per cent, rather than the standard rate of 2.25 per cent.

HEC agencies need not engage in mortgage underwriting themselves or be affiliated with lenders to become an important channel through which underserved homeowners access financing. If HEC programs are to succeed in opening up a potentially large untapped market to lenders, however, it is necessary, that they achieve lender recognition. Mortgage financing companies and mortgage insurers must accept that HEC programs fulfil an effective screening function and that households that successfully complete these programs gain valuable skills that reduce their risk of default. This reinforces the case for a broad approach to HEC that includes an initial emphasis on building an infrastructure that will ensure high standards of course content and delivery. It underlines the importance of creating strong umbrella organizations that include representation from the major financial institutions and mortgage insurance companies.

A proposed approach

From U.S. experience, there is considerable suggestive evidence of the benefits of HEC, but there are not, as yet, solid empirical results establishing the effectiveness of education and counselling programs in promoting homeownership and minimizing default risk for households in underserved markets. This unsatisfying state of affairs is largely due to the analytical difficulties in isolating the impact of education and counselling from the wide range of other factors that influence homeownership outcomes, as well as the fragmentation that characterized HEC in the U.S., until recently. For Canada, the implication is that HEC deserves attention but that a cautious investment strategy is likely warranted at this point in time.

A number of large-scale research projects are currently underway to evaluate the effectiveness of U.S. HEC initiatives. As these studies are completed, the nature of the contribution HEC can make to promoting homeownership in Canada should become clearer. To the extent these studies can establish that HEC improves housing access without contributing to a corresponding increase in lending risks, they will make it easier to obtain the support of commercial firms for the provision of HEC services and building an HEC infrastructure.

A cautious investment strategy does not preclude some preparatory work in laying the groundwork for HEC. There is sufficient positive evidence from U.S. case studies, the views of industry participants, and the continued willingness of U.S. stakeholders to contribute to U.S. programs to warrant an exploratory entry into the provision of HEC in Canada, through a co-operative venture by those in the housing sector who stand to benefit from such an initiative.

As a starting point, education and counselling demonstration projects could be targeted towards selected groups or in selected areas that are likely to be promising targets for HEC. The groups might include immigrant households, who are creditworthy but require assistance in overcoming significant language and cultural barriers to homeownership, and those who have serious concerns about the homebuying process and require assistance dealing with their concerns and gaining an understanding of how their family may benefit from homeownership. Aboriginal families outside of the reserves, who have been disadvantaged by the lack of a tradition of homeownership within their community, are among those who are likely to derive significant benefits from a well-planned HEC program.

Part of the preparatory task is to bring together groups with a potential interest in HEC. Representatives of these groups could attend HEC training offered in the U.S. by, for example, a NeighborWorks training institute. Afterwards, a Canadian Institute could be convened to which U.S. trainers of trainers could be invited. The goal of the Institute should be to establish a Canadian-based training program and train those who will participate in the demonstration projects. Stakeholders whose interests would be served by the development of effective HEC programs would be invited to attend. Likely candidates for membership on this steering group are: mortgage lenders and insurers; homebuilder and realtor associations; organizations serving immigrants, Aboriginal peoples and other possible client populations; provincial governments that offer counselling services in connection with their housing programs; community economic development organizations that sponsor low-income housing projects and/or that value HEC as a mechanism to help build the lifeskills of their client groups; and non-profit credit counselling services that are well-positioned to become delivery agents for some HEC programs.

Working together, representatives of these organizations would help to develop HEC programs that are responsive to particular

Canadian concerns. They would determine parameters of the demonstration projects and establish guidelines for the selection of sites. Members of the Canadian Institute steering committee would review the results of U.S. research, assessing its adequacy and relevance for Canada. Based on U.S. evidence and the results of the Canadian demonstration projects, for example, they would attempt to determine whether counselling can effectively, and at reasonable cost, change the outlook and perspective of those groups of Canadians that have been psychologically distanced from the homebuying process.

Once the demonstration projects are under way, groups should be encouraged to network to share their experiences. By working together, organizations that are currently involved in homeownership support and related education and counselling activities can pursue opportunities for collaboration. They can benefit from the exchange of information and from the creation of cost-sharing arrangements for the development of teaching materials and counselling guides.

A Canadian Institute uniting those with a potential interest in HEC will be a vehicle for monitoring ongoing developments in the U.S. and assessing the results of experimental HEC projects in Canada. It can help to ensure that there is an appropriate response if, and as, new research confirms the beneficial impacts of HEC. As evidence and support builds, it would enable stakeholders to work together to create an assortment of HEC programs that draw on the best features of U.S. experience to address significant gaps in services available to assist potential and existing Canadian homeowners.

Future research

There is a need for further research into the value and effectiveness of HEC. Exploratory programs introduced in Canada can provide some of the evidence that is needed to more fully understand the contribution of HEC. Information obtained from surveying program participants and providers can help answer some questions about the usefulness of education and counselling. The more important test, however, is whether counselling programs can prove themselves in research studies designed to isolate the impact of HEC from the other determinants of homeownership and homeownership default.

Quercia and Wachter discuss how to undertake a controlled experiment in which the behaviour over time of households that receive counselling is compared with that of a control group of households that does not receive homeownership counselling[1]. Although the rigorous examination proposed by Quercia and Wachter would not be feasible in an exploratory study that involved a limited application of HEC, data on Canadian program results can add to existing knowledge and supplement the message from survey findings and U.S. studies. While the research that will help Canadian stakeholders evaluate HEC will primarily come from major U.S. studies, analyses of domestic programs can help demonstrate the applicability of U.S. findings to Canadian homeownership issues.

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Endnotes

Part 1

1 From the end of World War II until the early 1980s, national homeownership rates rose from 43.6 per cent in 1940 to 65.8 per cent in the third quarter of 1980.

2 50 organizations were interviewed by telephone and an additional 50 were sent by mail. 48 of the 50 telephone interviews were completed satisfactorily. 31 of the 50 mail surveys were returned complete. The information presented in the report is based on the analysis of the 79 surveys.

3 According to HUD representatives, these funds typically covered about one-third of program costs. HUD expected programs to leverage other funds from local sources once they had secured HUD funding. For programs funded more recently, HUD funds cover about one-quarter of program costs.

4 Low income is defined as less than 80 per cent of the area median income. Moderate income is between 80 per cent and 120 per cent of the area median.

5 Underserved areas are defined as high minority density (more than 30 per cent minority households) or low income (below 80 per cent of median) census tracts.

6 From an interview with a GSE representative.

7 A HUD-approved counselling agency can provide homeowner education, homeownership counselling, or post-purchase education or counselling. Agencies must be not-for-profit and must offer education and counselling in a face-to-face fashion. In other words, providers of telephone-based education and counselling cannot be approved by HUD.

8 Household mortgages insured by the FHA pay both an "up-front" mortgage insurance premium as well as a small 0.5 per cent annual premium based on the loan-to-value (LTV) of the loan. Annual premia are paid for 10 years if the LTV is 95 per cent or higher; 7 years if the LTV is between 90 and 95 per cent; and 5 years if the LTV is under 90 per cent.

9 Although the HELP curriculum suggests 16 hours of class time, many of the HUD-approved programs contacted as part of this study cover the same material in as few as eight hours of classes.

10 At the time of this report, there is no published evidence regarding the cost-effectiveness of the program. The FHA will not discuss the performance of the program prior to publishing its own report. Interviews with key informants from HUD verified the claim that the rate reduction is not based on any scientific or empirical model. Rather, it was set based on best guesses regarding what would maximize the attractiveness of HEC for homebuyers without greatly endangering the FHA portfolio. Contacts were quick to point out that the rate discounts could be easily adjusted if they were determined to be inefficient.

11 A fuller explication of homeownership education is presented below in the discussion of national curricular standards suggested by AHECI.

12 Forbearance usually involves the agreement not to foreclose provided that an agreed upon workout plan is followed. Lenders might agree to accept interest-only monthly payments for a prescribed period or might even agree to a no- or low-cost refinancing agreement.

13 The following organizations are the original founding members of AHECI:
ACORN Housing Corporation
America's Community Bankers
Chase Manhattan Bank
Citicorp Foundation
Countrywide Home Loans, Inc.
Fannie Mae
Fannie Mae Foundation
First Commerce Community Development Corporation, New Orleans
Freddie Mac
GE Capital Mortgage Insurance Corporation
GMAC Mortgage
Home Ownership Center, Minneapolis/St. Paul
Mississippi Home Corporation, Jackson
Mortgage Bankers Association of America
Mortgage Guaranty Insurance Corporation
Mortgage Insurance Companies of America
National Association for the Advancement of Colored People (NAACP)
National Association of Home Builders
National Association of Real Estate Brokers
National Association of Realtors
National Council of La Raza
National Council of State Housing Agencies
National Federation of Housing Counselors, Inc.
National Foundation for Consumer Credit, Inc.
NationsBank
National Training and Information Center
National Urban League, Inc.
Neighbourhood Reinvestment Corporation
Northwest Counselling Service, Inc., Philadelphia
Norwest Mortgage, Inc.
PMI Mortgage Insurance Companies
Republic Insurance Company
Sacramento Home Loan Counselling Center

14 One informant summarized the position as follows: *You know it's easier to add than it is to subtract. Every module has its own constituency and nobody wanted to make them mad because then they wouldn't get their pet module through. Unless you have a strong leader, or dictator, you're going to have these kinds of problems in committees.*

15 Copies of the Core Curriculum and the Certification standards are available on request from AHECI. They can be contacted through their Web site at: www.aheci.org, by telephone at 888-AHECI-99 or by mail at: AHECI, 1156 15th St. NW, Suite 1220, Washington, D.C. 20005.

16 One key informant offered this view: *AHECI caved into political pressure from the realtors. It's AHECI's unwillingness to take unpopular political stands that will spell its doom. It's just like when Fannie opened the door for telephone counselling. Somebody has to be willing to take a stand somewhere or the whole thing becomes a joke.*

17 Although the recommendations of the Research Committee were released for comment in late 1997, it was impossible to track down a copy of the recommendations—even from the AHECI offices. In interviews with AHECI representatives, reference was made to the studies but there were no comments on results.

18 A soft second mortgage is underwritten at low or no interest with flexible amortization schedules. A silent second mortgage is underwritten at low or no interest and repayment does not begin until the first mortgage is repaid. Some soft and silent second mortgages include a "forgiveness" provision in which part or all of the mortgage is forgiven if the family remains in the home for a minimum length of time.

19 Mortgage Guaranty Insurance Coporation *Survey of Home Buyer*

20 The Affordable Gold products require a 5 per cent down payment, and completion of HEC training .

Part 2

1 Angus Reid, "Future Trends in Housing: Attitudes of Potential Home Buyers Towards Housing," submitted to CMHC, August 1995.

2 Kim-Anh Lam, *Future Cities and Multiculturalism - Montréal Case Study*, CMHC, 1997.

3 Ekos Research Associates, *Survey of Issues Affecting Racial and Ethnic Minorities in the Housing Sector*, CMHC, 1995.

4 Discussed in D.V. York, *Feasibility Study to Overcome Barriers for Aboriginal Home Ownership*, CMHC, undated.

5 The reference is to the Survey of Work Arrangements. This Chapter draws on Ekos, *The Changing Nature of Work and Future Housing Aspirations of Canadians*, CMHC, May 1998.

6 The credit problems and financing needs of the self-employed and other non-standard job holders are discussed in Ekos Research Associates Inc., *The Changing Nature of Work and Future Housing Aspirations of Canadians*. The experience of single females is discussed in SPR Associates Inc., *Canadian Women and their Housing*: 1997, CMHC, 1998.

7 This is discussed in: Peter Dreier and J. David Hulchanski, "The Role of Non-profit Housing in Canada and the United States: Some Comparisons," *Housing Policy Debate*, V.4, No. 1, 1993.

8 This is discussed in detail by Dreier and Hulchanski (1993).

9 American Homeowner Education & Counselling Institute, *Core Curriculum*, review draft issued July 14, 1998.

10 Freddie Mac, *Discover Gold Through Homeownership Education*, June 1995.

11 Ekos Research Associates, *Survey of Issues Affecting Racial and Ethnic Minorities in the Housing Sector*, CMHC, 1995.

12 P. Dickinson and G. Sciadias, "Canadians Connected," *Canadian Economic Observer*, Statistics Canada, Feb. 1999, Cat. No. 11-010-XPB.

13 The survey, conducted in late 1996 by Mortgage Guaranty Insurance Corporation (MGIC), is discussed in Charlotte Moore, "Heeding Another Voice," *Mortgage Banking*, September 1997.

14 Relevant CMHC publications include: *Home Care: A Guide to Repair and Maintenance; The Clean Air Guide: How to Identify and Correct Indoor Air Problems in Your Home; and Investigating, Diagnosing and Treating Your Damp Basement*. An example from the warranty programs is the pamphlet, *Information for the Care and Maintenance of Your New Home*, issued by the Alberta New Home Warranty Program.

15 Industry Canada, *Consumer Quarterly*, V.2, No. 7, Oct. 1997.

16 CMHC, Program Evaluation Division, "Evaluation of the Rural and Native Housing Programs: Main Report," Feb. 1992.

17 This is based on discussions with Ms. Iris Jacobs, the housing officer at the Mohawk Council.

18 This is discussed in New Beginnings Housing Cooperative, "Home Ownership Made Easier,"report prepared for Homegrown Solutions, March 1998.

19 "Building a Model for Affordable Home Ownership," prepared By New Dawn Enterprises for Home Grown Solutions, June 1997.

20 This is based on the findings in: CMHC, "Evaluation of the Federal Co-operative Housing Programs" Program Evaluation Division, Feb. 1992.

Conclusion

1 A useful guide is: Tom Zizys, *The Newcomer's Guide to Housing in Canada*, CMHC, 1999. There are also a number of guidebooks on the more general issue of counselling newcomers. For example: Arcturus Productions Ltd., *Working With Newcomers, prepared for Employment and Immigration Canada*, 1991.

2 Based on correspondence with Kathleen Spicer, Director of Programs, Housing Services, Nova Scotia Department of Housing and Municipal Affairs.

3 Roberto G. Quercia and Susan M. Wachter, "Homeownership Counselling Performance: How Can It Be Measured?" *Housing Policy Debate*, V. 7, issue 1, 1996.

Part 1 Appendices

Appendix 1

Industry experts interviewed for the project

Name	Address	Tel/Fax#
Scott VanDellan Senior VP	Countrywide Home Loans 55 South Lake Ave. Pasadena, CA 91101	(626) 535-3229 (626) 535-3326
Lowell Yost Program Director	AHECI 1156 15TH STREET, N.W. SUITE 1220 WASHINGTON, DC 20005	(888) 243-2499
Karen Hill, Executive Director	AHECI 1156 15TH STREET, N.W. SUITE 1220 WASHINGTON, DC 20005	(888) 243-2499
George Knight, Executive Director	Neighbourhood Reinvestment Coalition Washington, DC	(202) 220-2410
Bruce Dorpalen Director of Housing Operations	ACORN 846 Broad St. Philadelphia, PA	(215) 765-0048
Brigid Haragan Director HomePath	Fannie Mae Corporation 4000 Wisconsin Ave NW Washington, DC	(202) 752-8092
Amy Bogdon	Fannie Mae Foundation 3900 Wisconsin Ave NW Washington, DC	(202) 274-8092
Merle Sherrick Chief Risk Analyst	Republic Mortgage Insurance Corp. Washinston-Salem, NC	(800) 999-7642 x4300
Mark Goldhaber Vice President	GE Capital 6601 Six Forks Rd. Raleigh, NC	(919) 846-4476
Michael Stegman, Director	Center for Community Capitalism, Kenan Center, University of North Carolina, Chapel Hill, NC 27599	(919) 962-8839

Roberto Quercia, Assistant Professor	Dept. of Urban and Regional Planning University of North Carolina Chapel Hill, NC 27599	(919) 962-4766
Robert O'Toole Senior VP	Mortgage Bankers Association Washington, DC	(202) 861-6500
Jim McCall Director Housing Education and Outreach	Alaska Housing Finance Corp. PO Box 101020 Anchorage, AK 99501	(907) 456-0235
Doug Dylla National Coordinator Neighbourhood Reinvestment Corporation	108 North Cayuga St. 2nd Flr Ithaca, NY 14850	(607) 273-8374 x21
Michael Collins Campaign Performance Analyst NeighborWorks Campaign for HomeOwnership 2002	607 Boylston St. 5th Flr Boston, MA 02116	(617) 450-0410
David Chase Economist	USHUD Office of Policy Development And Research	(202) 708-4504 x5733
Geoffrey Cooper Director of Public Policy	MGIC Investment Corporation Milwaukee, WI	(414) 347-2681 (414) 347-6802
Al Austin National Assn. Of Realtors Rep. AHECI Board	CHR Realty BH&G 37 Mill Street Brunswick, ME 04011	(207) 725-4384
Kitty Woodley Director of Counselling	USHUD Dept. of Single Family Housing Washington, DC	(202) 708-0317 x3207

Appendix 2

Glossary of acronyms

ACORN	Association of Community Organizations for Reform Now
AHECI	American Homeownership Education and Counselling Institute.
ARM	Adjustable Rate Mortgage
CCE	Cornell Cooperative Extension
CCCS	Consumer Credit Counseling Services
CRA	Community Reinvestment Act
FHA	Federal Housing Administration
FHF	Family Housing Fund
FHLMC	Federal Home Loan Mortgage Corporation (Freddie Mac)
FNMA	Federal National Mortgage Association (Fannie Mae)
FRM	Fixed Rate Mortgage
HEC	Homeowner Education and Counselling
HMDA	Home Mortgage Disclosure Act
HOC	Home Ownership Center of the Family Housing Fund
HUD, USHUD	United States Department of Housing and Urban Development.
NRC	Neighbourhood Reinvestment Corporation
NHS	Neighbourhood Housing Services
NPH	Navajo Partnership for Housing
NWO	NeighborWorks Organization
RHS	Rural Housing Services (formerly Farmer's Home Administration)
USDA	United States Department of Agriculture

Appendix 3

The 1997 HUD/RTI study of the efficacy of homeownership counselling

The goals of the study were to develop and pretest survey materials to use in a larger study of the efficacy of counselling in promoting homeownership and minimizing default risk for households in underserved markets. In-depth case studies of four HEC programs were performed as part of the research. These case studies included focus groups conducted with HEC graduates in the four sites. We have included parts of this study to illuminate the HEC experience through the eyes of the clientele. The four sites chosen were: HomeSight in Seattle, Washington; Chattanooga Neighbourhood Enterprise in Chattanooga, Tennessee; the Family Housing Fund in Minneapolis/St. Paul, Minnesota; and the Mortgage Foreclosure Prevention Program affiliated with the Family Housing Fund in Minneapolis/St. Paul.

Seattle HomeSight was chosen because it has a wide scope of services offered, extensive relationships established with local, state and federal agencies, and a prominent role as a property developer. Program officers at HomeSight were eager to share their experience and materials with other HEC providers. Seattle HomeSight deeply subsidized their clients' home purchases and had arranged very favorable mortgage terms with local lenders. Their lending record was stellar despite the fact that the incomes of their main clientele were well below the levels necessary to qualify for loans to purchase similar local housing.

The Chattanooga Neighbourhood Enterprise was chosen as a representative of a nationally coordinated effort (NHS). It had a large client base, good local linkages, and most importantly, it had the thinnest subsidy structure and the highest degree of financial commitment required of its participants. Through its "Fastrak to Homeownership" program, the Chattanooga Neighbourhood Enterprise (CNE) had the fastest placement time of any of the programs contacted. CNE prepared families to close on properties within six to eight weeks of entering the program.

The Family Housing Fund of Minneapolis and Saint Paul (FHF) was selected for several reasons, including its affiliation with one of the better known post-purchase default counselling programs: the Mortgage Foreclosure Prevention Program (MFPP). The Minneapolis/St. Paul programs were also chosen for their extensive scope and local linkages. In particular, FHF was instrumental in the development and initial funding of the Home Ownership Center (HOC).[1] FHF continues to play a critical role in the HOC's activities by serving on its board of directors and funding various programs of the HOC.

The HOC operates as an umbrella organization and coordinates the efforts of four neighbourhood-based homeownership HEC agencies in Minneapolis and Saint Paul. It develops and provides standardized materials, which are adapted to meet the specific needs of a variety of different clientele in different areas of the cities. The program agencies are a consortium that divides the Twin cities into four service areas. They serve a diverse clientele including a large Asian (Cambodian, Vietnamese, Laotian) immigrant population and a large minority population.

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[1] FHF considers homeownership to be two words.

They coordinate the oldest and best-established mortgage foreclosure prevention program in the country, which has already been replicated in the states of Oregon, Idaho, and Iowa.

FHF continues to act as the administrative entity of the three MFPP agencies in the Twin Cities. The FHF study allows one to see two very different counselling programs: pre-purchase counselling designed to educate people in all aspects of home purchase and ownership; and mortgage foreclosure counselling designed to assist in digging homeowners out of default and eventual property loss.

Case studies: A description of selected programs

I. Seattle HomeSight

Seattle HomeSight is a multi-function community development organization. It is a non-profit that has been in existence since 1991 in the Seattle, WA area. During this time, its programs have evolved dramatically, as HomeSight has become more firmly established and linked to the local support network. While it is a direct provider of homeownership education and counselling, it also performs a variety of other activities, which support its counselling program. Specifically, HomeSight develops properties within distressed neighbourhoods, supervises construction, markets, and sells the homes. It sells the majority of its newly constructed homes directly to graduates of its homeownership education program. Originally, HomeSight rehabilitated abandoned buildings, which it bought from the city or lenders. It has departed from that strategy, finding that new construction is often cheaper than rehabilitation. HomeSight is also an "umbrella" organization providing curricular materials and training for other non-profit housing agencies in Seattle and the Puget Sound region.

Around 300 households approached HomeSight for assistance in 1995. The typical program participant is a single mother with credit problems. Over 80 per cent of the participants are nonwhite. None had signed a purchase and sale agreement before entering the program. Friends refer about 70 per cent of HomeSight's participants. The rest are attracted to the program through radio and newspaper advertising and a community-based artist group which has drawn signs and built displays for community events and drawn wall-sized murals in neighbourhoods served by HomeSight.

HomeSight does not screen its clients, although about 50 per cent of those who approach the program choose not to enter counselling or education based on the information obtained at the first meeting. When they arrive, it is determined whether the household is ready to purchase a house. Typically, lack of savings to make a down payment and/or credit problems prevent the household from purchasing a home. The program dictates that nobody can graduate without a year of continuous clean credit. Of those who enter the program, 65 per cent purchase a house within three years. Once they have completed homeownership training clients can reactivate their files at any time. Many wait several years for houses to be made available for purchase. Of the 35 per cent who do not purchase homes within the first three years, 60 per cent have since signed purchase and sales agreements and are waiting for houses.

HomeSight uses creative methods to help fund its program and to establish good linkages with lenders. HomeSight sells its houses at the cost of construction, which is generally about 80 per cent of the market price for the homes. HomeSight holds liens on the difference between the appraised value of the homes and the sale price. These liens are forgiven after households have lived in the house for a specific period (originally seven years).

HomeSight has united with local, state and federal agencies who offer favorably structured second mortgages of up to $40,000. The mortgages are typically no- or low-interest loans that are amortized in seven years beginning when the primary mortgage is paid off. Given that home buyers have instant equity in their properties and are applying for mortgages with principals around 60 per cent of the house value, lenders are eager to do business with program participants. One lender offered $1,000 down payment grants for program graduates. Another lender has offered to triple down payments of up to $2,500 (to generate a maximum of $7,500 down payment) for program graduates. This is a good example of the kinds of business linkages that offer significant advantages for HEC program participants.

HomeSight is a locally-oriented community development agency that focuses on distressed neighbourhoods within Kings County. The most favorable mortgage terms apply to homes built by HomeSight which limits the housing options available to participants who cannot afford to buy homes with less favorable terms. Further, the homes can be sold only as quickly as they are built. This leads to long waits for many people who complete the program. Some program graduates waited for more than two years for their house after graduation. Others purchased homes through the conventional market, because the wait was too long.

HomeSight housed 187 households in its first six years of operation (and counselled over 1,000 households). Only one household has had any trouble staying current on its mortgage. There have been no foreclosures.

The program has grown every year. It has also contributed dramatically to neighbourhood stabilization and rehabilitation—those neighbourhoods where HomeSight has concentrated its efforts have shown a concomitant increase in building and rehabilitation of properties by home owners and private builders. HomeSight has become a recognized player in local political circles. During the site visit to Seattle, we were invited to a press conference at the Seattle mayor's office where the transfer of 100 acres of federally-owned land to the city was being announced. HomeSight had a leading role in working out the transfer and is responsible for developing these parcels of land for low-income homeowners.

II. Chattanooga Neighbourhood Enterprise

Chattanooga Neighbourhood Enterprise (CNE) is a locally-based non-profit affordable homeownership program. CNE is affiliated with HUD, the National Foundation for Consumer Credit, the National Federation of Housing Counselors, and the Consumer Credit Counselling Services. Most importantly for our purposes, CNE is a local affiliate of the Neighbourhood Housing Services, a nationwide community development organization.

More than 300 households approached CNE for homebuyer training services in 1995. While CNE does not screen out households from its services, it does sort them into different levels of service when they approach the program. More than half of the households were put into the Fastrak program. Others were referred into other counselling services (credit counselling, budgeting) before they could enter the Fastrak. The typical household approaching CNE for homeownership training a single-parent (85 per cent female head of household), minority family with fair to bad credit; 90 per cent of the households earn less than $30,000 annually; and 80 per cent of the households have three or more members. More than half of the households counselled by CNE purchase a house (with average sale price around $60,000) within a year of entering the program.

Of all the programs contacted, CNE required the most substantial financial commitment and smallest time commitment of its clients. In order to enter the Fastrak program, households are required to have $845 in savings; $745 of this is used to cover the 2 per cent down payment required for a purchase. The other $100 is a non-refundable charge for the program. The Fastrak program, at its minimum, requires a single one-on-one counselling session (for application and screening) and a single eight hour homeownership training class (offered every Saturday). The typical participant attends more than one counselling session. Other services are negotiated with lenders and mortgage insurers (e.g. post-purchase counselling). Almost all of CNE's classes are devoted to pre-purchase education, although they are increasing their efforts in the post-purchase area.

CNE is well linked with lenders and other community support organizations. It works with a consortium of lenders who provide mortgages at very favorable terms. Typically, a household that graduates from the Fastrak program will receive a primary mortgage that requires a 2 per cent down payment (30 yr. FRM, market rate) and a second mortgage (underwritten by CNE) to cover closing costs.

In its six years of operation, less than 2 per cent of CNE's graduates had any trouble staying current on their mortgages. There have been no foreclosures. Given its thin subsidy structure and its minimal time commitments for participants, this performance is quite astounding. Whether the strict adherence to careful sorting of applicants and the substantial financial investment made by participants' account for this performance is a topic worthy of further exploration.

III. Family Housing Fund of Minneapolis and Saint Paul

The Minneapolis visit involved two organizations, the Home Ownership Center (HOC) and the Mortgage Foreclosure Prevention Program (MFPP). Although these programs are both affiliated with the Family Housing Fund, the services they provide and the clients they serve are quite different. We decided to treat the two separately—organizing two different focus groups and interviewing two different sets of service providers. To complicate matters further, seven separate groups (four homeownership education agencies, and three foreclosure prevention agencies) deliver the HEC services provided by each center. The activities of the HOC and MFPP are presented in the next two subsections.

Home Ownership Center

The Home Ownership Center (HOC) is a non-profit organization established in 1992 to provide outreach and education for homeownership training, and to link lenders, real estate agents and community groups to low-income home buyers. The HOC acts as the umbrella organization for four local agencies who provide fairly standardized HEC services (Powderhorn Residents Group, Northside Neighbourhood Housing Services, Family Service of St. Paul, and HomeLink). The HOC also coordinates with the MFPP and together they are trying to design a set of post-purchase support services for low-income households.

More than 3100 households approached the collaborative for training in 1995, a testament to the HOC's strong outreach program. The client pool of the HOC is more diverse than any of the other programs contacted. About 40 per cent of their client pool is African-American, 5 per cent is Hispanic, 15 per cent are Asian—mostly Vietnamese, Cambodian, and Laotian—and 35 per cent of the clients are white. The HOC maintains a list of interpreters who are familiar with the housing purchase process to assist those with inevitable language difficulties.

About 40 per cent of clients have bad credit histories, while nearly 15 per cent have no credit histories. Women head more than half of the households served. The majority of program participants (66 per cent) are between 30 and 50 years old. More than 60 per cent have pre-tax incomes less than $30,000. Families of those counselled average slightly more than four members. About a quarter of the participants had owned homes before entering the program. 35 per cent of the households counselled had purchased homes within two years. About half had purchased homes within three years. Although they had not finished compiling information on mortgage performance of their clients, there had been no recorded defaults at the time of the visit.

Households are not screened for participation in homeownership training, although the programs do screen households regarding eligibility for different support services and lending programs. The education and counselling are free and typically tailored to the needs of the household. The average household receives three 1-hour individual sessions with counsellors, attends 10-12 hours of group classes, and gets numerous telephone follow-ups. The HOC has produced some of the best educational materials of the agencies contacted. Participants noted the value of these materials in our focus groups—several noted that they kept the materials as valuable references after purchase.

Mortgage Foreclosure Prevention Program

The Mortgage Foreclosure Prevention Program (MFPP) is a consortium of three agencies providing direct counselling services (Twin Cities Habitat for Humanity, Northside Residents Redevelopment Council, and St. Paul Housing Information Office). The services provided by these three agencies are organized and administered by the Family Housing Fund. Although the three sites have the same program guidelines, there are variations in the way programs are implemented among the agencies. The Northwest Area Foundation funded the replication of the MFPP in other parts of its eight state funding region. Similar programs are now in operation in Cedar Rapids, Iowa; Portland and Hillsboro, Oregon; and Hayden, Idaho.

In 1995, 771 households in Minneapolis and St. Paul approached the MFPP for counselling. All of them owned homes and were in default. The households heard about the program through a variety of sources: referrals from social service agencies, lenders, legal services, unions, and other non-profits. The program is also advertised in newspapers, on billboards, and in public service announcements on radio and television. A majority of the clients were white. Almost half (47 per cent) of the households were headed by married couples with both spouses present. 80 per cent of the household heads were over 30 years old, 40 per cent were over 40. 57 per cent of households had three or more members. The average household participating in the program had owned their home for more than 6 years. They were 4.4 payments behind on their mortgage (owing an average of $2,861 in back payments). The average household held a $41,000 mortgage, with a small amount of equity.

About 52 per cent of those who approached the program in 1995 received information and referral, while 48 per cent received intense counselling. Of those who received intense counselling since the program's inception on July 1, 1991, 55 per cent are still current on their mortgages. Of the remaining 45 per cent, 77 per cent have missed payments or defaulted again and 23 per cent sold their homes.

On arrival, applicants are screened to determine the level of assistance for which they are eligible. The first level of assistance is limited to information and referral services. The next level of assistance involves intense counselling and case management services, and determination of eligibility for emergency financial assistance. All homeowners seeking assistance must reside in the service area (Minneapolis/St. Paul). In order to get intense counselling, the client must show that: 1) they are behind on payments due to events out of their control (e.g., job loss, illness, divorce, and separation); and 2) the homeowner's financial problems must be solvable. If homeowners do not meet these two conditions, they might still receive assistance through the foreclosure process but no financial assistance

The average client receives intense counselling and case management services getting 13 hours of individual counselling in seven to nine sessions. Some of the sessions are coordinated with lenders to negotiate work-out plans. The program acts as an advocate for clients, getting forbearance from lenders and persuading lenders to consider low cost refinancing or other schemes to avoid foreclosure. If the households qualify, up to $4,500 in reinstatement funds are made available in the form of interest free loans. The loans are held as liens on the property—collectable at resale.

While the results of the foreclosure prevention program may not seem impressive, it must be remembered that all of the clients which entered the program were in default. Most of them were facing dire circumstances and owed more than a month's wages in back mortgage payments. A requirement of the program is that a household must be more than two months delinquent in order to apply for assistance. The success of the program might be better if it were allowed to intervene earlier.

Insights gained from participants in focus groups

Learning from the experiences of program participants was a key aspect of the study. Four focus groups were conducted: Seattle, Chattanooga and two in Minneapolis/St. Paul to understand what participants in each program considered important about the counselling received. Those insights are presented below.

I. Background

The places and numbers of participants in each of the four focus groups were as follows:

Chattanooga Neighbourhood Enterprise	6
Seattle HomeSight	11
Twin Cities Home Ownership Center	14
Twin Cities Mortgage Foreclosure Prevention Program	13

Thus this section is based on information about these HEC programs and their suggested impacts from 44 individual participants.

Generally, in reporting the results from focus groups, the group, not the individual, should be considered to be the primary unit of analysis. Since the purpose of this study is to explore several diverse programs nationally rather than evaluate any single program, a theme reported in multiple groups represents a stronger finding in terms of the external validity of the study. Themes that emerged strongly within groups are also reported, though in some cases a high level of intragroup agreement may be due to the dynamics in the group or the "power of suggestion".

However, to bolster the utility of the focus group approach, in which it is difficult to interpret silence as either dissent or assent, two techniques were employed to get additional data from individuals: 1) Each individual participant was polled on selected issues for which it seemed important to establish each individual's experience and perspective; and 2) At the end of the session, each participant was asked to select what they considered to be the three most important points that emerged from the group discussion on several topics.

In the subsections that follow, each of the main topic areas that were discussed in the focus groups are presented in the approximate order in which they were addressed. The main topics include:

- Reasons for participating in the homeownership training program;
- Most useful aspects/topics of the program;
- New skills, knowledge, or attitudes acquired due to participation in the program;

- Main messages taken away from the program;
- Program impacts;
- Negative or missing aspects of the program; and
- Overall degree of program endorsement.

Reasons for participating in homeownership training

Someone in three of the four groups mentioned each of the following reasons for deciding to participate in homeownership training courses:

- help with bad or lacking credit [9 mentions]; and
- referred by real estate agent or lender [5 mentions].

Other reasons that were mentioned by several people in each of two different groups were:

- the information the program provides; step-by-step process [9 mentions];
- referred by friends or relatives who bought homes this way [9 mentions];
- down payment assistance or subsidy [5 mentions].

Only the participants in Seattle's HomeSight program commonly offered two additional reasons:

- type/location of homes offered through program [7 mentions]; and
- lower mortgage payments, more house for the money [5 mentions].

Several direct quotes related to the reasons for participation were as follows:

> *"I was convinced we could never buy. I'd been poor for so long. We never had any decent credit. When we found out we had enough money to qualify and could get down payment assistance for closing costs, we got really excited and took the first appointment we could get."*
>
> *"When we came to the U.S. we had a lot of children, a family of eight, and it was very hard to find rental housing."*
>
> *"This [buying a house] was a mountain we were going to climb. We were scared, so we wanted to get as much information as possible — to reduce the fear factor."*

In the foreclosure prevention group, the most commonly stated reason for participating was that the participants were on the verge of losing their homes, due to a recent major crisis such as job loss, health problem or marital dissolution:

> *"We were all drowning."*

Most useful aspects/topics of program

During the general discussion about the aspects of the program they found the most useful, people in all four groups mentioned budgeting. In addition, participants in three of the groups mentioned each of the following positive aspects of the program:

- moral support/encouragement/nonjudgmental attitude [15 mentions];
- course books, worksheets [9 mentions];
- preview of contract/purchase agreement, other legal documents [5 mentions]; and
- step-by-step businesslike approach [5 mentions].

Comments about the program's approaches included the following:

> *"The best thing is not to be treated like a charity case. They took a business approach. They said we must do 1, 2, 3. Not syrupy."*

Participants valued these common topics across programs; there were several aspects mentioned by several people within a program. These illustrate some of the programs' different focuses and strengths:

- program's advocacy, clout, intermediary role with lenders [Foreclosure; 5 mentions];
- home inspection/maintenance information [3 mentions]; and
- credit counselling and preparation for dealing with banks [3 mentions].

In the cities where a program's homeownership opportunities are in older housing, information on inspection, maintenance and repairs is also highly valued by the participants. And finally, in the case of the foreclosure prevention program, two program features were clearly the most important aspects: payment of the past due mortgage, and serving as an intermediary with the lender to give the homeowner an opportunity to get back on track.

In terms of the less tangible aspects of the program, such as the moral support or compassion from the counsellors, several participants in both of the Twin Cities programs mentioned and then voted for these as positive features. In Chattanooga and Seattle, the participants mentioned these aspects in their focus group session but in response to this question focused more on the specific topics or types of information that helped them in the home purchase process.

New skills, knowledge, or attitudes due to participation in program

Consistent with their comments about budgeting being one of the most useful course topics, participants (13) across all four programs said that because of the program they now had better knowledge and discipline about budgeting, saving, and prioritizing more generally. Specific quotes included:

> *"Now we don't buy food if my bills aren't paid. We eat at Mama's. I was the bad credit queen. Now I'm a credit counsellor."*
>
> *"Counsellors made me aware of the splurge spending we did. We had to account for each dollar. Now we know from check to check exactly where it is going. They showed me how to save $50 per month."*

Participants in all three pre-purchase programs mentioned that the program gave them an understanding of home maintenance and costs. For example:

> *"I looked at houses altogether differently after the lectures. We had looked more cosmetically before. Now we were on the roof checking it out."*

Participants in two of the programs also mentioned the following new attitudes or types of knowledge:

- confidence/self-esteem/assertiveness [10 mentions];
- how to assess houses for structural and maintenance problems [4 mentions];
- understanding of how quickly one must act to avoid default [4 mentions]; and
- knowledge of entire mortgage process and market [2 mentions].

Several people (5) in the Seattle group mentioned that they came away from the program with an understanding of how credit works and how it can be fixed. It is likely that participants in other programs developed this understanding as well, though it appears it may be a more overt emphasis of the HomeSight program.

Corroborating their direct responses to this question, the knowledge and attitudes demonstrated by the focus group participants throughout the discussions in all sites convinced the researchers that these programs can greatly educate and empower their participants. Many of the participants were confident and articulate when discussing their experiences and demonstrated an understanding of mortgage concepts. The Seattle group in particular seemed extremely knowledgeable about the many complexities of mortgages.

Main messages taken away from program

This question about the main messages is similar to the previous one about new attitudes and knowledge but gets to the heart of how effectively these programs are communicating with their clientele. Participants in three of the program sites mentioned the following main messages they took away from the program:

- You can succeed, own a home [9 mentions].
- Manage money, live within your means [6 mentions].

Some of their specific comments included:

> *"If we can do it, anybody can. Where there is a will there is a way."*
>
> *"You can be poor and get a house. You don't have to be rich."*
>
> *"Yes, we can do it even with eight children and I'm poor."*

Program impacts

To elicit responses regarding the perceived effectiveness of HEC, the moderator asked: "Would you have been able to buy a home (or keep your home) without going through this program?" Each participant was polled individually to get as complete a picture as possible.

Fifty-nine per cent (26 of 44 people, and at least four individuals in each site) indicated that the program made homeownership possible for them. They said they could not have bought or kept their home without the program. Three of their specific comments were:

> *"No, we would be the mobile home park queen. We would never own a home. Not unless we found a rich boyfriend."*
>
> *"No, we don't think we could have without [program]. It's really still a struggle."*
>
> *"No, because my credit was not good enough. [Program] was the only way for me to deal with the problems on my credit report."*

Although the remaining people said that they probably could have bought a home without the program, they characterized what the program did for them as follows:

- simplified and de-mystified the process [11 mentions, all 4 groups];
- sped up the process [8 mentions, 3 groups]; and
- got me into a better quality home [2 mentions, Seattle only].

As part of this discussion, the participants mentioned several impacts the program has had on others beyond themselves:

- revitalizes the target neighbourhood;
- provides example of homeownership for next generation;

- brings different economic groups together; and
- inspires others (friends and relatives) to pursue homeownership.

A quote related to the last point was as follows:

> *"My family and a lot of people say we are an inspiration, now they are motivated. It trickles down to other people. One of my co-workers would not be outdone."*

Negative or missing aspects of program

Although the focus group participants were generally very positive about the programs, which had made a large difference in their lives, the moderator did also elicit their suggestions for improvements or additions to the homeownership training programs.

The only negative theme voiced across three groups had to do with frustration with lenders and realtors:

- I felt misled or poorly treated by lenders; needed more preparation about what to expect and watch out for, various individuals involved [17 mentions].

- I needed more information about process between prequalification and move-in, time schedules, normal wait times—seemed long [3 mentions].

- I felt misled by real estate agents [5 mentions].

- The program needs to provide information in a format that works for foreigners, illiterate, learning disabled [3 mentions].

Understandably, given their precarious personal and financial situations, the foreclosure prevention group was generally less confident and exhibited more of a victimized attitude than the other groups. There seemed to be a feeling that there was a lot of information available about assistance and programs but that was deliberately not shared with them. However, as one participant pointed out:

> *"The attitude of a person losing his home is a scrambled mind—we need a help line."*

It is also worth noting that recent immigrants had some unique concerns about language and cultural barriers. Two specific comments were:

> *"It was so difficult to get through the loan process and all the paperwork in a new language."*
>
> *"Finding information was maddening. There must be a mechanism for government to be required to give all information right away. Services can help but they're all too compartmentalized."*

Nonetheless, some U.S.-born participants had similar complaints about the government:

> *"HUD is a big part of the problem. It needs to streamline, reduce the number of programs and give better information."*

Generally, it appears that while these four programs go a long way toward increasing the participants' understanding of the home purchase/retention process and their responsibility within it, they do not entirely eliminate the natural anxieties of dealing with lenders and real estate agents, risking non-refundable monies, depleting one's life savings, and signing numerous legal documents at closing.

Overall degree of program endorsement

The moderator asked three questions to evaluate how strongly the participants endorse these programs:

- Would you recommend the program to a friend?
- Would you be willing to pay a fee for the program or courses?
- Should people in a similar situation to yours be required to participate in such a program?

Across the board, nearly everyone in each of the four groups said they would recommend the program to a friend. Many had already recommended their program to friends and relatives. Many of them had heard about the program they participated in through a friend or relative.

In terms of their willingness to pay a fee for program/courses:

- Chattanooga's program participants paid a $100 fee for the Fastrak course, and at least two of the six focus group participants said it was well worth the money. Program officials indicated that courses used to be free but participant attention was not as good when no money was at stake.

- The Seattle group felt a nominal fee of $20-50 might be bearable, but wondered if people would realize beforehand that it would be worthwhile. One suggested soliciting donations at the end of the training.

- The Twin Cities foreclosure prevention group was mixed—some people said their financial straits were too dire to pay anything, others said up to $40 or $50 might be bearable. (This question was not asked of the Twin Cities pre-purchase education group.)

In the discussions about whether HEC should be required of similar home buyers, participants across all sites agreed unanimously that almost anyone could benefit from the information provided in the financial counselling courses and course workbooks. As one person said:

> *"Required is too strong a word, but they'd be an idiot not to do this."*

II. Preliminary conclusions

As a rule, individuals who participated in the focus group in each of the programs reported positive experiences with the training received. Many of the participants, who successfully bought homes after receiving HEC, indicated they initially had serious doubts about whether they could ever be homeowners. Specific concerns they mentioned include:

- suggestions from peers and own belief that it's impossible to own a home if you're poor or have bad credit;
- self-consciousness about low-income or immigrant status and being put on the spot, patronized or pitied;
- fear of commitment to a long-term mortgage, especially in uncertain job market;
- lack of information about the whole complex process;
- fear of feeling overwhelmed/confused by complex paperwork; and
- mistrust/fear of being taken advantage of by lenders, real estate agents, lawyers.

Part 2 Appendices

Apendix 1

List of Canadian organizations contacted

Affordable Housing Association of Nova Scotia
Agincourt Community Services Association
Alberta new Home Warranty Program
Alberta Department of Municipal Affairs
Alberta Real Estate Association
Alberta Urban Municipalities Association
Arab Community Centre of Toronto
Assembly of First Nations
Association des consommateurs du Québec
Association des conseillers en consommation du Québec
Association of Canadian Community Colleges (E-mailed our letter to all member institutions)
Association of Manitoba Municipalities
Association of Municipalities of Ontario
Association des courtiers et agents immobiliers du Québec
Association des conseillers en consommation du Québec
Association des consommateurs du Québec
Association des consommateurs pour la qualité dans la construction
Atlantic Home Warranty Program
Bank of Montreal (Making Homeownership Possible)
Bank of Nova Scotia
B.C. Ministry of Municipal Affairs
B.C. Native Housing Corporation
B.C. Non-Profit Housing Association
B.C. Government Debtor Assistance Program
Calgary Home Builders Association
Calgary Real estate Board
Canada Trust Company
Canadian Real Estate Association
Canadian Bankers Association
Canadian African Newcomer Aid Centre of Toronto
Canadian Association of Financial Planners
Canadian Society of Consumer Affairs Professionals
Canadian Home Builders' Association
Canadian Insolvency Practitioners Association
Canadian Housing and Renewal Association
Canadian Home Economics Association
Catholic Cross Cultural Services
Catholic Family Services

Century 21
Certified General Accountants Association of Ontario
Chambre immobilière du Grand Montréal
Chambre immobilière de Québec
Chambre immobilière du Grand Montréal
Chinese Information & Community Services
CIBC National Capital Region - Anne Kennedy-Henry
City of Montreal
Cook, Thomas and Sally, & Associates (ReMax Real Estate Knowledge Center)
Coldwell Banker
Collectif en aménagement urbain Hochelaga-Maisonneuve
Communitas Group
Community Action Alliance Regina, Regina, Saskatchewan
Community Financial Counselling Services
Community Information Centre for the City of York
Condominium Home Owners' Association
Conféderation des caisses populaires et d'économie Desjardins du Québec
Congress of Aboriginal Peoples
Consumer Education Department, Lethbridge Community College
Consumer Finance Department, Northern Alberta Institute of Technology
Consumer Studies, University of Guelph
Consumer Studies Department, University of Alberta
Consumer Studies Department, Mount St. Vincent University
Consumers' Association of Canada - Manitoba Branch
Consumers' Association of Canada
Consumers' Council of Canada
Cooperative Housing Association of British Columbia
Cooperative Housing Federation of Canada
Cooperative Housing Association of Nfld and Labrador
Cooperative Housing Federation of Nova Scotia
Costi-Ilas Immigrant Services
Counselling Foundation of Canada
Credit Counselling Services of Ottawa
Credit Union Central of Canada
Credit Association of Canada
Credit Counselling Society of B.C.
Credit Institute of Canada
Credit Counselling Service of Sault Ste. Marie & District
Credit Counselling Services of Southwestern Ontario
Credit Union Central of Ontario
Credit Counselling London
Credit Counselling Service of Toronto
Credit Society of B.C.
Credit Counselling Services of Atlantic Canada

Director, Office of Consumer Affairs, Industry Canada
Etobicoke Housing Help Centre
Féderation des associations coopératives d'économie familiale du Québec
Féderation des chambres immobilieres du Québec
Federation of P.E.I. Municipalities
Féderation nationale des associations de consommateurs du Québec
Federation of Canadian Municipalities
Financial Education Services of Canada
First Nation Communities
Flemingdon Neighbourhood Services
Fraser Valley Home Builders Association
Fredericton Real Estate Board
Gignul Non-Profit Housing Corporation (First Nations)
Greater Vancouver Home Builders Association
Greater Moncton Real Estate Board
Greater Vancouver Real Estate Board
Greater Toronto Home Builders Association
Greek Community Centre of Metro Toronto
Habitat II Committee - Canada
Habitat for Humanity, National Office
Halifax/Dartmouth Real Estate Board
Halifax Regional Municipality
Institute of Chartered Accountants of Ontario
Insurance Bureau of Canada
Jewish Immigrant Aid Services of Canada
Khanawake First Nation
Law Society of Upper Canada
Lethbridge Community College
L'office de la protection du consommateur
Luma Native Housing Society (Vancouver)
Manitoba Real Estate Association
Manitoba Consumer Affairs Division
Manitoba Housing Authority
Metis National Council
Money Concepts
Mortgage for Less
National Aboriginal Housing Committee
N.B. Real Estate Association
N.B. Department of Municipalities, Culture and Housing
N.B. Non-Profit Housing Association
New Home Warranty Program of Saskatchewan
Nfld and Labrador Housing Corporation
North York Housing Help Centre
N.S. Department of Business and Consumer Services, Debtor Assistance Program Consumer Proposals

N.S. Department of Housing and Municipal Affairs
N.W.T. Housing Corporation
Ontario Mortgage Brokers Association
Ontario New Home Warranty Program
Ontario Ministry of Consumer and Commercial Relations
Ontario Non-Profit Housing Association
Ontario Ministry of Municipal Affairs and Housing
Ontario Association of Credit Counselling Services
Ontario Civil Service Credit Union Limited
Ontario Mortgage Brokers Association
Ontario Real Estate Association
Ottawa Carleton Real Estate Board
P.E.I. Housing Corporation
Personal Credit Counselling Service
Plan de garantie des bâtiments résidentiels neufs, Régie du bâtiment du Québec
Quint Development Corporation, Saskatoon, Saskatchewan
Real Estate Council of Ontario
Real Estate Council of Alberta
Real Estate Council of B.C.
Real Estate Council of Ontario - Shelley Westlake
Realtor.Com (Toronto Real Estate Board)
Refugee Reception House (Kitchener)
Régie du logement du Québec
RE/MAX
Rexdale Community Information and Legal Services
Riverbank Development Corporation, Prince Albert, Saskatchewan
Royal Bank of Canada
Royal Lepage
Saint John Real Estate Board
Saskatchewan Real Estate Association
Saskatchewan Housing Corporation
Saskatchewan Urban Municipalities Association
Saskatoon Real Estate Board
Scarborough Housing Help Centre
Société d'habitation du Québec - Jacques Trudel
St. John's Real Estate Board
TD Bank, Mortgage Development - Mike Braid
TD Mortgage Corporation
Toronto Chinese Community Services Association
Trust Companies Association of Canada
Tyendinaga First Nation (Bay of Quinte)
Union of Nova Scotia Municipalities
Warranty Program of British Columbia and Yukon
West Scarborough Neighbourhood Community Centre

Winnipeg Real Estate Board
Working Women Community Centre
York Housing Help Centre
Yukon Real Estate Association
Yukon Housing Corporation

Appendix 2

Organizations providing homeownership education and/or counselling

Non-Profit Organizations

Organization Name	Contact	Tel/fax/email	Type*	Program Description
B.C. Native Housing Corporation	Phylis Nikelwicz	Vancouver Tel: (604) 688-1821	Pre	Up to 5 years ago, the association briefed people about responsibilities of homeownership, especially the need for maintenance, under the home ownership component of rural & native housing program (as required by CMHC).
Community Action Alliance Regina	Kevin McArthur, Economic Development Co-ordinator	Regina, Sask. Tel: (306) 569-2227	Pre & Pst	Will implement counselling similar to Quint (see below) in near future when co-operatives are established.
Consumers' Association of Canada	Jenny Hillard, Vice-President	Tel: (613) 238-2533	Pre & Pst	Informs the public and advocates on their behalf on a wide range of consumer issues including housing. The provincial branches organize public information events to discuss consumer issues and concerns.
Cooperative Housing Federation of Canada	Penelope Winter, Education Services Officer	Tel: (416) 366-3876	Pre	Provides training to officers in local federations who provide training to board, committee members & staff of newly formed housing co-ops; local federations serve as ongoing resource for board & committees of co-ops.

Credit Counselling Service of Toronto	C.M. (Duke) Stegger, Executive Director	Tel: (416) 228-3328	Pre & Pst	Provide debt counselling & administer debt retirement programs; also offer money management seminars to students and various groups.
Credit Society of B.C.	Scott Hannah, Executive Director	Tel: (604) 527-8999	Pst	Advise clients with debt problems & where necessary, will negotiate & administer debt restructuring plan.
Gignul Non-Profit Association (Aboriginal org.)	Roy Jacobs	Tel: (613) 232-0016	Pre	Provides ad hoc assistance to persons no longer qualifying for or benefiting from social housing.
Habitat for Humanity	Susan Forwall, Affiliate Director	Tel: (519) 889-4565	Pre & Pst	Family selection & support teams within individual affiliates provide initial counselling and ongoing support to low-income families placed in Habitat for Humanity-provided & financed homes.
Khanawake First Nation	Iris Jacobs	Tel: (450) 632-7500	Pre & Pst	Provides money management programs provided to families selected for homeownership. Courses also provide on preventative maintenance.
Lethbridge Community College	Candace Vinning, Continuing Studies Information Officer	Tel: (403) 320-3340	Pre	College offers evening courses on mortgages & budgeting for home purchase, legal aspects of home purchase, & guidelines for inspecting home.

National Aboriginal Housing Committe & Luma Native Housing Society	Marcel Swain	Tel: (604) 876-0811	Pre	Some urban aboriginal housing associations get involved in an ad hoc and incidental way in homeownership but not under any federal or provincial program. These associations mainly manage existing rental social housing.
New Dawn Enterprises	Randy Macsween, Project Officer	Tel: (902) 539-7210	Pre	Organized pre-ownership courses for social assistance recipients who were given an opportunity to purchase manufactured mini-homes within the Pine Tree Park project in Cape Breton, Nova Scotia.
Quint Development Corporation	Len Usisken, Economic Development Co-ordinator	Saskatoon, Sask Tel: (306) 978-4041	Pre & Pst	Provide pre-ownership seminars & informal post-ownership counselling for members & boards of three housing co-operatives.
Riverbank Development Corporation	Don Johannesson, Community Economic Development Co-ordinator	Tel: (306) 763-4221	Pre & Pst	Provide pre-ownership seminars & informal post-ownership counselling for members & boards of two housing co-operatives.
Tyendinaga First Nation	Laurie Maracle	Tel: (613) 396-3424	Pre	Approve housing plans prior to mortgage approval (6 inspections during construction).

Government Departments and Agencies

Organization Name	Contact	Tel/fax/e-mail	Type*	Program Description
Alberta Municipal Affairs	Norma Chritena, Housing Advisor	Tel: (780) 422-8285	Pre & Pst	Provides pre-purchase counselling to tenants eligible to purchase their rental unit under Rural Emergency Home Program, Remote Housing Program, & Rural & Native Housing Program, & follows up with post-purchase visit to new homeowner.
B.C. govt. Debtor Assistance Program	Douglas Wellbanks, director of program	Tel: (604) 660-3556 Fax: (604) 660-8472	Pst	Staff offer counselling for individuals in financial difficulty and administer provisions of B.C. Bankruptcy Act.
B.C. Municipal Affairs	Juliette Proom, Policy Analyst, Housing Policy Section	Tel: (250) 387-4096 Fax: (250) 387-5120 jproom@hq.marh.gov.bc.ca	Pre	Programs to encourage homeownership expired in early 1990s. Established Homeowner Protection Office last year which, as part of its mandate for consumer education, produced *Buying a New Home: A Consumer Protection Guide.*
City of Montréal	Martin Wexler	mwexler@ville.montreal.qc.ca	Pre	City considering adding a page to Web site concerning affordable ownership.
CMHC	Greg Goy	Tel: (613) 748-2582	Pre	Public can access information on all aspects of homeownership via their elaborate website. Sells the highly-regarded *AffordAbility*™ software, which provides information on buying a new home, renewing a mortgage or undertaking a renovation. The *Step by Step* booklet and info from the Canadian Housing Information Centre is also available from the Web site.

Industry Canada	Consumer Information	http://strategis.ic.gc.ca/SSG/ca00477e.html	Pre	Offers very basic starter info for new homebuyers on its Web site.
N.S. Ministry of Housing	Kathleen Spicer	Tel: (902) 424-6683	Pre	Homeownership education programs expired in early 90s. Produced *The Home Ownership Guide.*
N.W.T. Housing Corporation	Juanita Case	Tel: (867) 920-6534	Pre	Staff provide counselling to new homeowners qualifying for Independent Housing Program, Emergency Repair Program, Northern Territorial Rental Purchase Program, or Expanded Down payment Assistance Program.
Saskatchewan Housing Corporation	Myron Stenka, Research Officer	Tel: (306) 787-8424	Pre	Staff operating out of Prince Albert provide pre-ownership counselling to new homeowners in the North qualifying for assistance under province's Remote Housing Program.
Saskatchewan New Home Warranty Program	Glenn Silliphant, Executive Director	snhwp@sk.sympatico.ca	Pre	Provide information on program through regular seminars held in conjunction with New Home Month.
Yukon Housing Corporation	Allyn Lyon	Tel: (867) 667-3773 Fax: (867) 667-3664	Pre	Runs courses on building one's own home twice a year, and seminar on buying a home.

For Profit Organizations and their Associations

Organization Name	Contact	Tel/fax/email	Type*	Program Description
Association des courtiers et agents immobiliers du Québec		www.acaiq.com/Site/consommateurs/ga-intro.html	Pre	Provides a *Practical Guide* to all one should know about buying a home on its Web site.
Association des consommateurs pour la qualité dans la construction	Charles Tanguay	(514) 384-2013	Pre	Maintains a Website which provides information to prospective homeowners, with an emphasis on quality of construction.
Banks - major banks i.e. Bk of Montreal, Bk of Nova Scotia, CIBC, Royal Bank, T-D Bk			Pre	Local branches of major banks offer new homeowner seminars, often in conjunction with real estate brokers. Most distribute information packages for homeownership, e.g. the Bk of Montreal's *Making Home Ownership Possible*, and the *CIBC Home Planning Kit*.
Canadian Bankers Association		Fax (416) 362-7705	Pre	Public can access general information on homeownership, including their document *Mortgage Wise*, on their Web site.
Canadian Home Builders' Associations	Paul Gravelle, Patti Wentzell	wentzell@chba.ca	Pre	Local HBAs offer seminars for new homeowners as part of the association's annual campaign. In addition, large homebuilders offer seminars in conjunction with marketing of new housing projects.
Canadian Real Estate Association	Thomas Bosley	Fax: (613) 234-2567 info@crea.ca	Pre	Public can access general information on buying a home on their Web site. Provides useful information mainly on the process of home purchase or sale, including the offer of purchase, expenses at closing, mortgage types.

Cebra's Online Mortgage Explorer	Century 21	www.themortgage.com	Pre	Provides general info on buying a home & specific info on mortgage financing & allows reader to pre-qualify for mortgage approval.
Century 21	Pat Quinn, Assistant VP	QUNNCY@aol.com	Pre	Provide *First Time Buyer Seminar* powerpoint slide presentation with written suggestions on how to host this event to each of their franchise offices.
Confédération des caisses populaires et d'économie Desjardins du Québec	Richard De Beaumont	Tel: 1 800 463-4810 ext. 2413	Pre	Individual branches transmit homeownership information to clients. Publish brochure *Pour Être Hyper Bien Chez Soi.* Annual seminars which provide information on homeownership for prospective buyers are hosted by Fédération du Québec.
Greater Montréal Real Estate Board	Jacques Fortier	jacques.fortier@cigm.qc.ca	Pre	Many documents aimed at consumer available on their Web site.
Manitoba Real Estate Association	Taras Luchak	tluchak@mrea.mb.ca	Pre	No public education courses but public can access general info on their Web site.
The Mortgage Centre		www.mortgagecentre.com	Pre & Pst	Public can access general info on Web site maintained by system of franchised mortgage brokers who are part of Mortgage Center. Provide general info on buying a home, slanted to encouraging consumer to buy now and online access to publication *HomeScene* which offers info on home care and mortgages.
Mortgage Store		www.mortgagestore	Pre	Web site provides variety of info on mortgage financing and offers on-line pre-approval for mortgage applicants.

RE/MAX Metro-City Realty	Wendy Bell Thomas & Sally Cook	Tel: (613) 596-1651 Tel: (416) 699-9292	Pre	Offer consumer seminars with speakers from banks, home inspection companies, and law firm. Produce brochure entitled *The Changing Face of Real Estate in the 90s.* T & S Cook maintain a Web site called The Knowledge Centre which provides general information for prospective home owners.
Winnipeg Real Estate Board's Housing Opportunity Partnership	Peter Squire	peter.squire@wreb.mb.ca	Pre	Initiative to revitalize inner city housing and promote benefits of home ownership. Holds home buyers seminars. Considering holding home ownership training program in conjunction with Lions Club of Winnipeg.

*Type refers to programs which offer pre-and/or post-purchase counselling.